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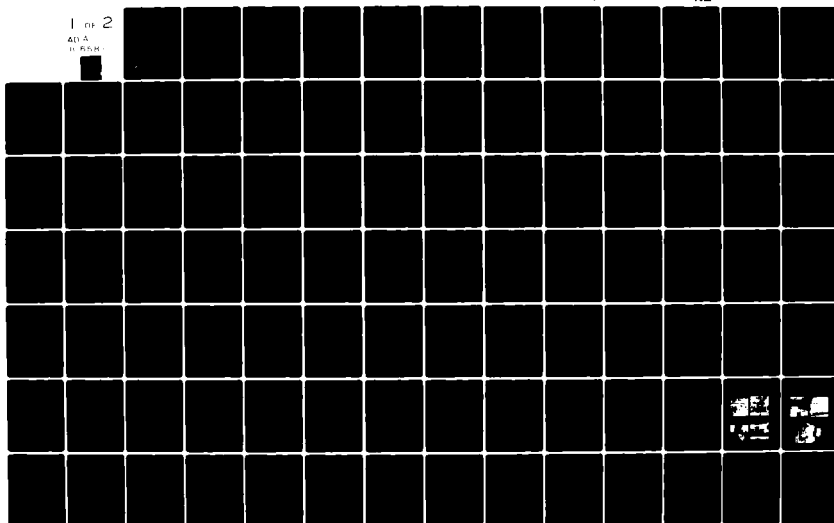
GENERAL ACCOUNTING OFFICE WASHINGTON DC INTERNATIONAL DIV F/G 5/3  
THE GROWING ROLE OF TRADE AS A DEVELOPMENT ASSISTANCE MECHANISM--ETC(U)  
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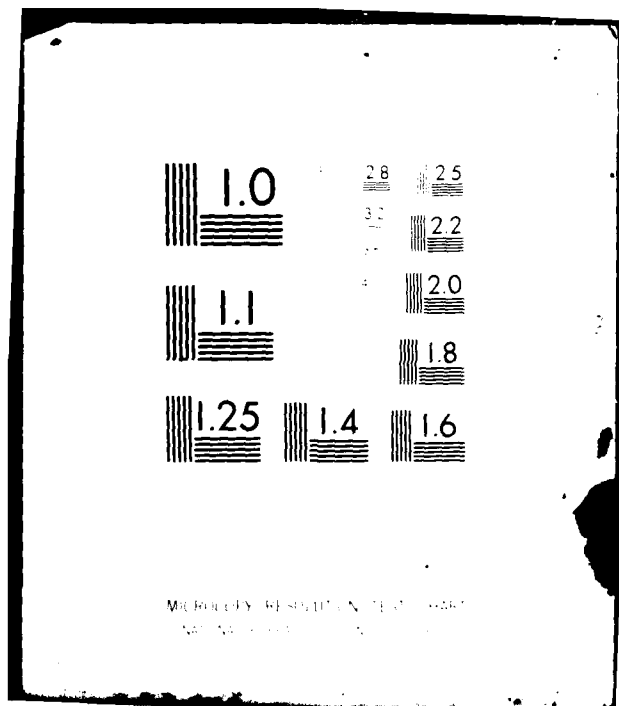
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REPORT BY THE U.S.

# General Accounting Office

## The Growing Role Of Trade As A Development Assistance Mechanism,

GAO has reviewed how four developing countries use trade in their economic development, and how bilateral and multilateral donors assist developing countries in the area of trade. Developing countries increasingly depend on expanding trade--particularly with developed countries--to assist in their economic growth. GAO found that in the four countries it reviewed--Malaysia, Thailand, Indonesia, and the Philippines--similar internal and external obstacles to increasing trade exist.

Although the responsibility for trade development rests primarily with the developing countries, developed-country governments assist developing countries bilaterally and multilaterally in their efforts to increase exports.

During its review, GAO noted several bilateral and multilateral mechanisms for furnishing trade assistance to developing countries. GAO's report is intended to help the U.S. development assistance community in its search for new mechanisms to furnish such assistance.

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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

INTERNATIONAL DIVISION

B-203518

The Honorable Alexander M. Haig, Jr.  
The Secretary of State

The Honorable Malcolm E. Baldrige  
The Secretary of Commerce

The Honorable William Brock  
U.S. Trade Representative

The Honorable M. Peter McPherson  
Administrator, Agency for International  
Development

We have reviewed how four developing countries use trade in their economic development and how bilateral and multilateral donors assist developing countries in the area of trade. The objectives of our review were to examine, for Malaysia, Thailand, the Philippines, and Indonesia, the role of trade in their development, and the existing and/or potential obstacles to implementing and/or maintaining a successful trade strategy. We also examined how these obstacles are being addressed. In reviewing how developed countries assist developing-country trade efforts, our objectives were to identify U.S. and other Organization of Economic Cooperation and Development member-country trade assistance techniques. This letter highlights the results of our review which are discussed in greater detail in Appendixes I and II.

In view of declining foreign assistance programs, developing countries increasingly depend on expanding trade, particularly with the developed countries, to assist in their economic growth. In recent years, developed-country imports from (non-oil) developing countries as a share of total imports averaged about 14.5 percent; the United States and Japan were the largest importers.

For the most part, trade flows are a function of the international marketplace, but developed-country governments--bilaterally and multilaterally--assist developing countries in their efforts to increase exports. The United States, for example, is providing trade assistance through various bilateral

and multilateral activities. The Departments of State and Commerce, the U.S. Trade Representative, the Agency for International Development, and the Food and Drug Administration all provide some form of assistance, ranging from furnishing information on such programs as the Generalized System of Preferences (GSP) which permits some developing-country export products to enter the developed countries duty-free, to providing technical aid. (See app. II.) In addition, two programs facilitate U.S. private investment in development: the Trade and Development Program and the Overseas Private Investment Corporation. <sup>1/</sup> Although both help American industry compete with government-backed investors and exporters from Europe and Japan, they also provide technical services and training which are intended to contribute to development in developing countries. These two programs could also lead to increased developing-country exports.

The World Bank and International Monetary Fund are taking new measures to assist trade in developing countries. The United States supports these efforts because it provides a major share of support for international institutions. The United States also supports certain international agreements to stabilize commodity trade, including the common fund and international agreements on rubber and sugar. In addition, the United States supports the Multilateral Trade Negotiations which provides tariff reductions and other preferential treatment for developing-country trade.

Developing countries face similar internal and external obstacles to increasing trade. We found this to be the case in the four countries we reviewed--Malaysia, Thailand, Indonesia, and the Philippines. (See app. I.) Internal obstacles include, but are not limited to, lack of trained personnel, marketing experience, quality control, and available credit, as well as inadequate infrastructure and bureaucratic red-tape. External constraints are posed by the relative strength of the international economy and tariff and non-tariff measures in potential or actual markets. Each country, to varying degrees, needs donor assistance to improve its international trade position.

Developing countries are responsible for their own development and must play the major role in promoting their own trade position; supporting efforts by the United States and other developed countries are important. During our review we noted several multilateral and bilateral mechanisms for furnishing trade assistance to the developing countries. • mechanisms which are

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<sup>1/</sup>As part of our review efforts on trade and development issues, we recently reviewed these two programs and issued reports: "Increased Management Action Needed to Help TDP Meet Its Objectives," (ID-81-20, Jan. 6., 1981) and "The Overseas Private Investment Corporation: Its Role in Development and Trade," (ID-81-21, Feb. 27, 1981).

discussed in detail in Appendix II include (1) the International Trade Center's trade assistance projects in developing countries; (2) the United Nations' special Generalized System of Preferences training project; and (3) trade-promotion activities through trade promotion information offices located in developed countries.

The U.S. development assistance community continues to seek new mechanisms for furnishing trade assistance to the developing countries. We trust that the information contained in this report will be helpful to you as you pursue these efforts.

We are sending copies of this letter to appropriate congressional committees, agency officials, and to other interested parties. We would appreciate your comments on these observations, advising us of your plans for action in this area.

Sincerely yours,

*Frank C. Conahan*

Frank C. Conahan  
Director

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### ABBREVIATIONS

|        |  |
|--------|--|
| AID    | Agency for International Development                 |
| EEC    | European Economic Community                          |
| FDA    | Food and Drug Administration                         |
| GAO    | U.S. General Accounting Office                       |
| GATT   | General Agreement on Tariffs and Trade               |
| GSP    | Generalized System of Preferences                    |
| IDCA   | International Development Cooperation Agency         |
| OECD   | Organization of Economic Cooperation and Development |
| OPIC   | Overseas Private Investment Corporation              |
| Stabex | Stabilization of export earnings                     |
| Sysmin | System for mineral development                       |
| UNCTAD | United Nations Conference on Trade and Development   |
| UNDP   | United Nations Development Program                   |

THE TRADE STRATEGIES OFMALAYSIA, THAILAND, THE PHILIPPINES, AND INDONESIA

This appendix discusses the role of trade in the economies of Malaysia, Thailand, the Philippines, and Indonesia. Trade plays a major role in the development of each country, and petroleum is a major trade factor. Oil resources have provided most of Indonesia's foreign exchange earnings but have also led to a sense of complacency in addressing long-term, trade-development needs. Malaysia's petroleum has supplemented an already healthy economy and allowed the Malaysian government to concentrate on social development equity goals. The current account deficits of the Philippines and Thailand largely result from oil price increases and have indicated a need for economic restructuring in each country.

These countries, which currently have relatively agricultural economies, are generally pursuing labor-intensive, export-oriented industrial strategies. These strategies have some similar features: increased processing of agricultural and other commodities; diversification of manufactured, low-technology export products; and various foreign/domestic investment incentives.

Malaysia, Thailand, the Philippines, and Indonesia are countries in which (1) the industrial world has an important stake in stable economic development; (2) international trade has significant economic impact; and (3) trade assistance from foreign donors can be a viable and effective form of development assistance. For each country we examined

- the role that international trade plays in the development plan;
- the specific trade strategy and why it was adopted;
- the advantages/disadvantages to the strategy; and
- the existing and/or potential obstacles to implementing and/or maintaining a successful strategy and how they are being addressed.

During this review, we interviewed U.S. officials who had responsibility for and/or knowledge on the trade and economic conditions of these countries from the Departments of State, Commerce, the Treasury, and Agriculture; the International Development Cooperation Agency (IDCA); the Agency for International Development (AID); Food and Drug Administration (FDA); Consumer Product Safety Commission; and the U.S. Trade Representative. We interviewed the commercial attaches and/or foreign trade representatives of each country. We also met with officials of the U.S. Chamber of Commerce, United Nations, American Importers Association, American-Indonesian Chamber of Commerce, and Labor Industry Coalition for International Trade; and with the presidents/managers of several private U.S. companies which import from or

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have trade knowledge of Malaysia, Thailand, the Philippines, and/or Indonesia.

We spent 2 to 3 weeks in each country interviewing officials in the respective U.S. Embassies; U.S. and local business associations and chambers of commerce; and officials from the respective government departments of trade, investment, and finance, as well as national planning agencies.

We reviewed U.S. Government data and files; multilateral/international and private-sector publications; and reports/documents provided by the foreign governments. We relied heavily on information and data provided by foreign government officials.

As part of our review, we sent questionnaires to 677 American importers who do business in Malaysia, Thailand, the Philippines, Indonesia, and South Korea. We sent our questionnaire to obtain information on American business experience in importing or attempting to import from these countries. South Korea, a newly industrialized country whose development success is based in large part on an export-oriented trade strategy, was included for internal GAO comparative purposes only.

We sent the questionnaire on July 21, 1980; a follow-up questionnaire was sent on August 18, 1980, to those importers who did not respond to the initial mailing.

We obtained the listing of importers from the "Journal of Commerce's Directory of American Importers, 1979-80." We selected the states of California, Georgia, Illinois, Maryland, New York, Ohio, Texas, and Washington in which to conduct our survey; all importers listed as importing from Malaysia, Thailand, and Indonesia were surveyed. Due to the large number of importers from the Philippines and South Korea, these importers were randomly selected by computer. Five hundred thirty-three responded; 1/399 answered some or all of the questionnaire. This information provided a basis for addressing specific issues during our overseas fieldwork. It was incorporated in the report, where relevant, to illustrate favorable and unfavorable experiences of U.S. business in importing from Malaysia, Thailand, the Philippines,

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1/A total of 677 questionnaires were sent; 533 (78.7 percent) importers returned the questionnaire; 399 importers answered some or all of the questionnaire (58.9 percent of the total and 74.9 percent of the respondents); 158 imported from South Korea; 60 from Malaysia; 98 from Thailand; 103 from the Philippines; and 42 from Indonesia. Some importers indicated that they did not import from any of these countries and therefore did not answer the questionnaire. Of the 399 importers who answered some or all of the questions, some import from more than one country. Not all importers answered the questionnaire in its entirety.

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and Indonesia. Copies of our questionnaire are available, upon request, from the U.S. General Accounting Office, International Division (Development Assistance Group), Washington, D.C. 20548.

The results of our oral interviews and reviews of the records were combined in what we judge to be an accurate description of the trade situation in Malaysia, Thailand, the Philippines, and Indonesia. The following chart shows the degree of trade between Malaysia, Thailand, the Philippines, and Indonesia, and the United States, Japan, and the European Economic Community (EEC).

TRADE  
(by percent)

|             | U.S.A.         |                | Japan          |                | EEC a/         |                |
|-------------|----------------|----------------|----------------|----------------|----------------|----------------|
|             | <u>Exports</u> | <u>Imports</u> | <u>Exports</u> | <u>Imports</u> | <u>Exports</u> | <u>Imports</u> |
| <u>1970</u> |                |                |                |                |                |                |
| Indonesia   | 13.0           | 17.8           | 40.8           | 29.4           | 14.9           | 21.6           |
| Malaysia    | 13.0           | 8.6            | 18.3           | 17.5           | 19.3           | 23.3           |
| Philippines | 41.6           | 29.4           | 40.1           | 30.6           | 7.3            | 15.4           |
| Thailand    | 13.4           | 14.8           | 25.5           | 37.4           | 18.3           | 22.6           |
| <u>1976</u> |                |                |                |                |                |                |
| Indonesia   | 28.7           | 17.4           | 41.7           | 26.2           | 7.2            | 21.2           |
| Malaysia    | 15.6           | 12.3           | 21.1           | 20.5           | 20.9           | 16.7           |
| Philippines | 36.0           | 22.2           | 24.3           | 27.1           | 18.8           | 12.1           |
| Thailand    | 9.6            | 13.0           | 25.7           | 32.5           | 21.1           | 13.2           |

a/Includes those countries which joined EEC in 1973.

Source: Robert Pringle, "Indonesia and the Philippines, American Interest in Island Southeast Asia," (1980, p. 139.) Data is from the International Monetary Fund, "Direction of Trade, " Annuals, (1966-70 and 1970-76.)

MALAYSIA

Malaysia's export performance is good by any standard and is outstanding for a developing country. Malaysia is actively attempting to improve its trade position and faces comparatively few internal constraints to trade. The success of Malaysia's trade development has basically been achieved through its government commitment to international trade and through concomitant economic policies and programs. The country can, however, improve its trade in some respects by improving its infrastructure, diversifying its markets, and encouraging exports through improved marketing.

From our review we also noted that:

- The Malaysian Government recognizes that some of its export problems relate to inadequate shipping facilities, market intelligence, and export promotion and is attempting to address these areas.
- There is a lack of export consciousness on the part of many Malaysian producers who tend to be content to sell to the domestic market; the idea of exporting intimidates many producers. Government and private groups are undertaking efforts to educate and assist small-scale producers and manufacturers; the Government is also providing some incentive through reduction of tariff protection for domestic industry.
- Malaysia faces few problems with its primary commodities because standards and quality control are good and markets are established. The Government is attempting to diversify its markets to lessen its dependence upon the European countries, Japan, and the United States.
- Because of tariffs and quotas and various other protectionist barriers which some developed countries have erected, marketing some Malaysian manufactures and processed goods has been difficult.
- The Malaysian Government views the rise of China as a textile supplier to the United States as adversely affecting Malaysian exports; Malaysian exporters face competition from plywood producers in the Philippines, South Korea, and Singapore.

#### COUNTRY PROFILE

Malaysia is a constitutional monarchy composed of 13 federated states: eleven in Peninsular Malaysia, and Sabah and Sarawak, located on the northwestern coast of Borneo (Indonesian Kalimantan), for a total land area of about 130,000 square miles. <sup>1/</sup> The states of Sabah and Sarawak have more autonomy than the peninsular states and do their own economic planning.

The 1979 population of Malaysia was estimated at about 13 million with a racial split of approximately 50 percent ethnic Malays; 34 percent ethnic Chinese; 10 percent Indians; and 6 percent classified as "others." The population growth rate for

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<sup>1/</sup>For the sake of clarity and the reader's information, any references to "west coast" refers to the western part of Peninsular Malaysia; "east coast" to the eastern, less developed part of the peninsula.

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Peninsular Malaysia has averaged 2.8 percent since World War II. The population is projected to reach 20 million by the year 2000 and to stabilize at 29 million by 2065. Yearly per capita income is about \$1,700; adult literacy is estimated at 60 percent; life expectancy at birth is 67 years.

Malaysia is rich in resources. It is the world's largest exporter of rubber, tin, and palm oil; it exports petroleum <sup>1/</sup> and will be producing liquefied natural gas in the near future. By the end of 1980, the Malaysian Government expected to earn up to \$2 billion in foreign exchange from its petroleum exports. In addition, Malaysia has signed a 20-year agreement with Japanese electric utilities to purchase all available liquid natural gas. Malaysia still depends upon primary commodity exports for most of its non-oil foreign exchange earnings, but there are strong efforts to increase industrialization through production of processed foods, electronics, and other manufactures, and through finished/semi-finished products from such commodities as rubber and timber.

### Trade profile

Malaysia is a very export-dependent developing country, with the export sector contributing about 50 percent annually to the GNP. The Government is attempting not only to expand and diversify its export base but to widen its export markets. Malaysia has an ultimate goal of achieving exports of 60 percent manufactures and 40 percent processed commodities.

Export earnings increased from \$1.69 billion in 1970 to \$11.05 billion in 1979; imports equaled \$1.4 billion in 1970 and \$7.76 billion in 1979. Net external reserves increased from \$655 million in 1970 to \$4.2 billion in 1979. <sup>2/</sup> Malaysia's exports are: petroleum (24 percent); manufactured goods (21 percent); rubber (18 percent); saw logs (11 percent); palm oil (8 percent); tin (9 percent) and sawn timber (4 percent). Imports are machinery and transport equipment (36 percent); manufactured goods (17 percent); chemicals (11 percent); food, beverages, and tobacco (12 percent); inedible crude materials (5 percent); minerals, fuels, and lubricants (15 percent); and others (4 percent).

Certain exports require certification by the Government to insure quality control (rubber and palm oil), and others such as cement, scrap iron, steel bars and sugar are subject to licensing. Virtually all imports are subject to a 5 percent surtax; some

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<sup>1/</sup>Malaysia is not a member of Organization of Petroleum Exporting Countries.

<sup>2/</sup>Most figures in this section are taken from the Government of Malaysia, Ministry of Finance "Economic Report 1980-81." Where figures are given in Malaysian ringgits we have used the following exchange rates: 1970 M\$3.08 to U.S. \$1.00; 1975 M\$2.59 to U.S. \$1.00; 1979-80 M\$2.19 to U.S. \$1.00.

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essential goods such as rice, salt and kerosene are exempt, and a drawback may be granted on goods intended for re-export or for export after processing. A 5 to 10 percent sales tax is also levied on most imports.

The following table shows Malaysia's exports/imports and balance of trade for 1979 and 1980 with its major trading partners.

Malaysia Exports/Imports With Its Major Trading Partners

1979-80 (\$ million) a/

|           | -----1979----- |         |         |         |         | -----1980 b/----- |         |         |         |         |
|-----------|----------------|---------|---------|---------|---------|-------------------|---------|---------|---------|---------|
|           | Exports        | Percent | Imports | Percent | Balance | Exports           | Percent | Imports | Percent | Balance |
| Japan     | 2588.2         | 38      | 1753.6  | 33      | 834.6   | 2721.5            | 32      | 2205.5  | 33      | 516.0   |
| USA       | 1909.8         | 28      | 1171.4  | 22      | 738.4   | 2289.0            | 27      | 1404.1  | 21      | 884.9   |
| FEC       | 1957.2         | 29      | 1368.5  | 25      | 588.7   | 2925.1            | 35      | 1605.0  | 24      | 1320.1  |
| Australia | 193.7          | 3       | 474.5   | 9       | -280.8  | 254.3             | 3       | 601.4   | 9       | -347.1  |
| West Asia | 199.5          | 3       | 598.8   | 11      | -399.3  | 242.0             | 3       | 799.1   | 12      | -557.1  |
|           | 6848.4         | 101 c/  | 5366.8  | 100     | 1481.6  | 8431.9            | 100     | 6615.1  | 99 c/   | 1816.8  |

a/Conversion rate of M\$2.19 to U.S. \$1.00.

b/Projected.

c/Due to rounding figures.

Source: Malaysia Ministry of Finance.

Development needs

Malaysia's development needs center on more equitable distribution of the country's economic resources and improved infrastructure and supporting services particularly on the east coast and in Sabah and Sarawak. Malaysia is receiving some assistance in this area through World Bank and Asian Development Bank loans. The country's vast resources, fairly well-developed economy, stable political environment, and relatively efficient government structure, permit it to concentrate on social concerns.

Following post-election racial disturbances in May 1969 which reflected ethnic Malay dissatisfaction with electoral losses and their general economic situation, the Government announced the goal of restructuring Malaysian society and its economy through the New Economic Policy. The policy is designed to provide more proportional ownership of, and benefits from, country resources by all segments of society, with an aim that poverty will be substantially reduced by 1990. The policy is essentially an affirmative action program for Malays to be achieved through the development of the country and through expansion of the economy.

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In 1970, 65 percent of the Malay households were classified as "in poverty" as compared to 26 percent of the Chinese and 39 percent of the Indian. One objective of the New Economic Policy is ownership of 30 percent of overall corporate shareholdings by Malays, 40 percent by Chinese and Indians, and 30 percent by foreigners by 1990. In 1970, the proportions were about 3, 34, and 63 percent, respectively. The Malay share rose to approximately 14 percent in 1980. Another objective is to make employment at all levels and in all sectors of the economy proportionate to the population.

The Government is also attempting to redress the development imbalance among the Malaysian states. States along the Thai border and on the east coast have been classified as "poor," meaning they have less than the national average per capita GNP. Under the third development plan's regional development program, the Government allocated these states additional development monies (16 percent of total share allocations) to improve infrastructure and services in order to attract foreign and joint venture investments for employment, export processing, and manufacture.

### TRADE STRATEGY

British colonial policy effectively discouraged the growth of Malaysian local industry by promoting export-oriented raw material production and British manufactured imports. The post-colonial Malaysian Government initially emphasized import-substituting industrial development by subsidizing new factories and through tariff protection. The Government actively encouraged local and foreign investment capital by offering tax and other incentives, and by providing facilities. Malaysia had reached the limits of its import-substitution phase of its industrial process by the end of the 1960s.

The Investment Incentive Act of 1968 marked the switch from import-substitution to export-oriented industrialization and encouraged renewed industrial growth. The second development plan covering 1971-75 was implemented within the New Economic Policy and the 1968 investment act, and laid the basis for increasing export-oriented commodity processing and manufacturing industries including palm oil and woodprocessing; textiles, clothing, and footwear; tobacco products; rubber products and plastics; and electronics. The value of manufactured exports grew from \$127 million in 1970 to \$783 million in 1975. More than 56 percent of total exports in 1970 came from the agricultural sector (including rubber, 33.4 percent; timber, 16.3 percent; and palm oil, 5.1 percent) as opposed to 22.6 percent from mining and 11.4 percent from manufacturing. By 1975, manufactured exports were 23 percent of total exports, mining contributed 21.7 percent and agriculture 49.5 percent. Manufacturing employment growth rose from 11 percent in 1975 to 13 percent in 1978. The 1980 unemployment rate in Malaysia was 5.3 percent, but because structural unemployment exists (lack of trained personnel for available jobs), the country actually faces a labor shortage in some areas.



Malaysia completed its third development plan in 1980. Exports were expanded and diversified, including increasing (1) agricultural and forestry production; (2) processing commodities and raw materials; (3) petroleum and liquefied natural gas production which has the potential to develop petro-chemical and ancillary industries; and (4) manufacturing for export.

#### Implementation of trade policies/programs

The Malaysian economy is structured for export orientation. The Government publicly supports this approach to trade and has shown its commitment through the adoption of compatible policies and programs, focusing on (1) tax incentives, (2) export investment, (3) export promotion, and (4) export credit financing. The proposed 1981 development budget allocation for the trade and industries sector is \$479 million, or 12 percent of the overall \$3.9 billion budget.

#### Tax incentives

The Government has adopted various tax incentives designed to encourage increased domestic/foreign investment for export manufacturing, including allowances for increases in export sales above a previously established base-year level, or a flat allowance for first-time exporters; the allowance is increased for industrial products which incorporate at least 50 percent domestic materials.

There are accelerated depreciation allowances for companies exporting 20 percent by value of total production if they incur qualifying plant expenditures for modernization. Deductions are also allowed for overseas promotional expenses for advertising, supply of free samples abroad, export market research, preparation for overseas tenders, negotiation and conclusion of contracts abroad, public relations work connected with exports, and expenses directly related to the exhibits and/or participation required in trade or industrial exhibitions which the Minister of Trade approves.

Government investment incentives (in order to stimulate export growth in the face of recession abroad) increased the export allowance for established exports and expanded the overseas promotion expense deduction to include the cost of maintaining overseas sales offices for export promotion. The Investment Incentive (Amendment) Act of 1980 also created a special provision authorizing the Minister of Finance to periodically publish which manufactured products are not eligible for export allowance. This provision is to encourage Malaysian manufacturing companies to increase the processing of products. Exported goods with simple processing and low value added as well as primary products are not eligible for export allowances. The Government also has provisions to exempt from customs duties, imported raw materials used in the manufacture of finished products for export markets, and machinery required for manufacturing.

The "Plantation Allowance" of the 1967 Income Tax Act allowed deductions for certain capital expenditures by companies engaged in production of approved crops. <sup>1/</sup> This allowance was amended by the 1980 act to extend incentives to cultivating fruit crops and vegetables; and rearing fresh water fish, prawn, and marine culture and livestock for meat and dairy products.

Other incentives include various tax-relief provisions based on capital investments, location, type of products manufactured, and percentage of Malaysian content. These mechanisms are designed to encourage investment in the poorer, less-developed areas and to expand investments in export industries and in other priority sectors.

#### Investment for export

The Malaysian Industrial Development Authority is a sophisticated operation geared toward attracting foreign investment for manufacturing. An Authority economist said that the Government recognizes that the domestic market is too small for economies of scale in many areas of manufacturing and that production must therefore be exported. Authority activities and Malaysia's export orientation led to a growth in the electronics industry. Instability is inherent in these industries, given their ability to change countries easily and their use of 100 percent imported components. The Malaysian Government has maintained its competitive position and retained the industries by discouraging labor unions from organizing this industry.

The Government is trying to get regional dispersion of industry and generally only permits high-technology investment in west coast Malaysia. Government officials said that despite Government efforts, the lack of infrastructure and supporting services remains a problem. Because business is reluctant to locate there, development of the east coast and Sabah and Sarawak has been hampered. The country has four operating export processing and ten free trade zones, located principally in western Malaysia.

A Malaysian manufacturer said that Malaysia lacks a broad-based industrial sector to support expansion of its manufacturing sector; machinery must be imported and delays and problems in getting spare parts have occurred. The Government is establishing a Heavy Industries Corporation to address this problem.

Although the Malaysian "rules of doing business" are among the most liberal in Southeast Asia, the Government is particularly interested in foreign technical and marketing expertise, emphasizing that these elements should accompany foreign

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<sup>1/</sup>Approved crops include cashew nuts, cocoa, coconut, coffee, durian, mangosteen, manila hemp, palm oil, pepper, rami, rambutan, rubber, sugar cane, tea, and cultivated timber.

investments. Malaysian officials believe that foreign investors in joint ventures should actively participate in business operations and should transfer their marketing and technical knowledge to their Malaysian partners.

#### Export promotion activities

The Ministry of Trade and Industry opened an export promotion center in Kuala Lumpur in January 1980. The center provides free space for Malaysian manufacturers to exhibit their products; has a small reference library where Malaysian exporters may obtain market surveys and trade information compiled by overseas offices; and hosts seminars conducted by foreign governments and international organizations in various trade matters such as GSP (Generalized System of Preferences) procedures. The Government has also established several trade promotion/investment centers in the United States, Canada, Asia, and Europe.

As part of its strategy to diversify export markets and lessen its dependence on EEC, Japan, and the United States, the government sent trade missions and/or held trade exhibits under its 1980 Trade Promotion Program in West Asia, Fiji, Papua New Guinea, Australia, and China, as well as in Europe, Japan, and the United States.

An official of the Federation of Malaysian Manufacturers said that exporters need better market information and that his organization has recommended that the Government undertake surveys to complement its trade missions/exhibits so that manufacturers will know which products to promote where.

The Government has conducted various seminars on exporting but officials do not believe that their efforts have been particularly successful to date. The Federation of Manufacturers also holds classes for its members and has established awards for increased export sales and quality control measures.

To promote Malay participation in trade, the Government insures that they are included in all trade missions sent abroad. A register of Malays is also maintained to insure that foreign market inquiries are referred to them. They are also given preference in Government issuance of import licenses.

The Government also issues an annual exporters' guide which lists Malaysian producers and their products. This list is sent to trade associations and chambers of commerce in the United States. A bi-monthly newsletter outlining various new Government policies/programs and trade data is sent to selected U.S. importers and chambers of commerce, and to other interested U.S. individuals. Malaysian Government officials also attend relevant U.S. Government-sponsored trade briefings (e.g., on GSP or FDA regulations).

Export credit financing

In 1977, the Central Bank of Malaysia established a post-shipment export refinancing facility for manufactured exports. The Bank refinanced credit extended by commercial banks to exporters at preferential rates of interest. The Malaysian Export Credit Insurance Corporation, a joint venture between the Government and private industry, was also set up in 1977 to provide export credit insurance covering commercial, economic and political risk (e.g., nonpayment for exports, frustration of contracts). Credits were provided in 1979 for plastic items, timber and wood products, agricultural machines, rubber and related products, electronic components and building materials.

In 1979 the Central Bank also established a pre-shipment financing facility to complement the corporation. The manufacturers of rubber and plastic products, footwear, metal products, sport goods and furniture are eligible for annual concessionary interest rates of 4.5 percent.

An Industrial Development Bank was established in 1979 to provide long-term financing to companies in all sectors of the economy, particularly for expansion of productive capacity in capital intensive and high-technology export industries. Funds are not only available to finance infrastructure costs, for example to the shipbuilding and repair industry to enable it to expand and compete in building vessels designed for export products, but also to provide export credit so that exporters can compete effectively in international markets.

Other factors affecting exports

In addition to providing tax incentives, export promotion activities and credit, the Government is attempting to improve its export performance by developing a domestic shipping industry. Malaysia has begun licensing and regulating domestic shipping; granting tax concessions to shipping companies; and providing financial assistance for capacity expansion to the shipbuilding industry. Ports for both conventional and container cargo have also been upgraded. A Government official said that infrequent and irregular shipping schedules is one of the biggest problems facing Malaysian exporters. He said that because of shipping problems, the Government currently does not even consider Latin America as a potential market.

The Government is also concerned about the quality of Malaysian products. Export quality control is assured through its Standards Institute, through product inspections, and by issuing export certificates. For example, processed palm oil which does not meet Government standards is classified as crude palm oil for which the exporter must pay export taxes. The Government has also encouraged the Federation of Malaysian Manufacturers to make international quality a standard for Malaysian products. The Deputy Prime Minister recently said " \* \* \* 'Made in Malaysia'

(should be) a label of pride and dignity reflecting a quality in \* \* \* products no lower than that expected from developed countries."

A Trade official said that the Government is not encouraging expansion of the textile industry because of market problems (e.g., protectionist measures by developed countries). The Government is studying export products which are not sensitive; overseas trade offices have been directed to do surveys and report to the Government. The official said that the Government will emphasize the manufacture/production of these goods, but that the problem is that "what's not sensitive today, is tomorrow."

An official with the Federation of Malaysian Manufacturers said that the Government has indicated that it is going to liberalize its import policies (e.g., lower protective tariffs). He said that the Federation has received complaints from its members that the Government is already doing this selectively although no official policy had been announced. This official said that the Federation's position is that Malaysians must "pull up their socks" to become more competitive and increase exports.

#### Other problems in the trade area

Efforts to improve Malaysia's trade are also inhibited by the following factors and problem areas.

- Both Government and private industry officials said that Malaysians are not "export conscious" and that manufacturers are content to sell to the domestic market. The Government and Federation of Manufacturers are undertaking campaigns to encourage export consciousness and stimulate an increase in exports. Government officials said that many exporters are unaware of GSP and they ship their products without certificates and thus at greater costs. A Trade official said that medium- and small-size Malay companies need "a lot" of export assistance; "Malaysians are conservative and panic at the thought of export markets." He said that they need to be "led by the hand through the entire export process." The Government offers programs aimed at these problems, as does the International Trade Center 1/ which, in conjunction with Japan, is conducting export-promotion training programs for Malaysian exporters.
- The majority of U.S. importers who responded to our survey, and who import from Malaysia, (and who were aware of export procedures) were favorably inclined toward Malaysian administrative export procedures and port/airport facilities as an incentive for business. However, of the importers responding to the survey who

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1/A U.N.-sponsored center discussed in appendix II.

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do not import from Malaysia, 53 percent cited a lack of familiarity with Malaysian products as a major reason for not importing from the country, indicating a need for increased Malaysian export promotion in the United States.

- Malaysian officials said that Malaysia shares the difficulties of developing countries in establishing market contacts, making appointments with potential buyers, conducting market surveys, etc. The Government gets assistance in this area from EEC and Japan. One Malaysian official commented that the United States owes Malaysia nothing as opposed to the former colonial powers which do have obligations to assist their former colonies in the developing world. He said that the Malaysian Government tells its exporters to use their own initiative regarding the U.S. market--that the potential benefits from trade with the United States far outweigh (trade promotion) investment costs. However, officials also commented that the U.S. market is so large and diverse that it overwhelms Malaysian businessmen and that assistance from the U.S. Government in establishing market contacts could be beneficial. Officials also said that the United States could greatly help developing countries, including Malaysia, by sending "traveling representatives" to explain the U.S. economy and give projections on future possibilities for imports to the United States.
- Potential problems are inherent in the New Economic Policy. Other ethnic communities resent various aspects of the ethnic Malay "affirmative action" program. One exporter said that to obtain an export license he must yield 51 percent of his company to Malay ownership. He said that he was willing to turn over some of the ownership but he would not yield control; he is currently exporting under another company's license which is legal but increases his costs. He has set up a company in Singapore as have other Malaysian businessmen we talked to. Presumably if they begin to feel that they cannot continue to operate in Malaysia under the New Economic Policy they will move to Singapore.
- Two Malaysian trade officials told us that one problem with the bureaucratic structure is that Government officials are part of a government-wide pool, subject to transfer among the various agencies--particularly for promotions. They commented that this negatively affects some departments which require expertise for their areas of responsibilities. A Malaysian banking official said that the Government should stress labor-training and upgrading skills among the Malaysian workforce, and needs to make some areas of its bureaucracy more efficient.

THAILAND

Thailand's continued economic growth and development depends increasingly on its ability to expand exports, increase farm productivity, diversify products and markets, process more basic agricultural commodities, and continue the rapid growth of its industries. Thailand has traditionally exported agricultural commodities and processed agricultural products. Manufactured exports are growing rapidly and include textiles, clothing, and other non-traditional products. The agricultural sector still produces about 60 to 70 percent of Thai exports and employs more than 80 percent of the labor force. However, additional increases in agricultural production and exports depend upon significant improvement in farm productivity.

Thailand emphasizes exports as a complement to its traditional policy of import substitution and is seemingly adopting economic development and trade expansion concepts which have proved successful in other countries. To restore a more favorable balance-of-payments, the Government has placed high priority on increased exports and has encouraged their expansion through Government-sponsored programs, such as export promotion, export financing, and credit and investment incentives. Thailand is also establishing trading companies and export processing zones, and is developing industries to process basic commodities. Exports made no headway in cutting the Thai trade deficit in 1979 despite an impressive effort. The deficit increased 46 percent to \$1.8 billion due primarily to rising petroleum prices.

Thailand can do more to further increase economic development and expand exports including

- diversifying products and markets;
- processing a larger portion of commodity exports;
- increasing and improving export-promotion programs by assisting producers in establishing market contacts and by improving the quality of overseas trade fairs and trade missions;
- improving the country's infrastructure, especially in areas outside the central region around Bangkok; and
- reducing administrative obstacles, such as lengthy and complex approval and rebate procedures and overlapping bureaucratic responsibilities.

COUNTRY PROFILE

Thailand ranks as a middle-income country with a per capita income of \$490. Income distribution is worsening with the largest disparities among the regions. The central region around Bangkok, which has diversified to include industry and services

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as well as agriculture, has had the largest income gains. In mid-1978 the population was 44.5 million; during 1970-78 the population increased 2.7 percent annually. The population is projected to stabilize in 2095 at 103 million people. Life expectancy is 61 years and the adult literacy rate is 84 percent.

Thailand's labor force has been increasing about 3 percent a year or by about 500,000 new labor force entrants, annually. Additional employment opportunities in the agricultural sector are limited, and it is unlikely that the industrial and service sectors can at present take up the slack. Official statistics for unemployment were 1 percent in 1979. Disguised unemployment, in addition to underemployment, may affect as much as 30 to 40 percent of the total labor force.

Thailand has one of the highest average indices of per capita food production among developing countries and enjoys an almost unique position of having large food surpluses for export. Led by a thriving private sector and supported by prudent monetary and fiscal policies, Thailand has had almost 2 decades of rapid economic growth; the real GNP growth averaged 7.3 percent and real per capita income averaged 4 percent. After a long period of stable prices, however, annual inflation in 1979 reached 15 percent. Thailand depends on foreign sources for over 40 percent of its energy consumption and rising oil prices have been a major inflation factor. Oil imports in 1980 were expected to absorb the earnings of Thailand's top three exports (rice, rubber, and cassava). Concurrently, these oil price increases are likely to slow economic growth.

A significant industrial sector has emerged, concentrated in and around Bangkok. The share of industry in gross domestic product has risen steadily, primarily due to the rise in manufacturing, from 13 percent in 1960 to 19 percent in 1977. This growth has been fueled mainly by domestic demand.

Thailand has only recently begun to borrow from external sources to finance growing current account deficits. Thailand has an excellent credit rating, and barring international liquidity shortages, should have continued access to those sources.

### Trade profile

Thailand is essentially an agrarian country with 80 percent of its labor force employed in agriculture; this sector accounts for about 26 percent of gross domestic product. The country's agricultural surpluses have served as important exports and accounted for approximately 60 to 70 percent of its total export earnings, or about \$5 billion in 1979.

Rice continues to be Thailand's principal crop and leading export, totaling about 2.7 million tons in 1979. Cassava and rubber are also strong export products. Other agricultural



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exports include corn, sugar, pineapple, and fish. (See the following table.)

| EXPORTS BY COMMODITY<br>in million dollars |        |                       |                 |                              |                           |           |                    |              |                               |  |
|--|--------|-----------------------|-----------------|------------------------------|---------------------------|-----------|--------------------|--------------|-------------------------------|--|
|  | Food   | Beverages and tobacco | Crude materials | Mineral fuels and lubricants | Animal products and waste | Chemicals | Manufactured goods | Manufactures | Vice products of Manufactures | Miscellaneous manufactures and commodities |
| 1971                                       | 560.6  | 14.1                  | 240.1           | 1.1                          | ...                       | ...       | 177.6              | ...          | ...                           | 43.8                                       |
| 1973                                       | 681.1  | 16.4                  | 420.6           | ...                          | ...                       | ...       | 290.1              | ...          | ...                           | 54.0                                       |
| 1974                                       | 1382.0 | 23.0                  | 450.6           | 29.0                         | ...                       | 16.8      | 998.9              | 17.7         | ...                           | 58.1                                       |
| 1975                                       | 1330.0 | 29.0                  | 340.2           | 12.7                         | ...                       | ...       | ...                | ...          | ...                           | 46.7                                       |
| 1976                                       | 1771.7 | 31.5                  | 478.0           | 6.1                          | ...                       | 13.4      | 466.8              | ...          | ...                           | 30.4                                       |

| IMPORTS BY COMMODITY<br>in million dollars |       |                       |                 |                              |                           |           |                    |              |                               |  |
|--|-------|-----------------------|-----------------|------------------------------|---------------------------|-----------|--------------------|--------------|-------------------------------|--|
|  | Food  | Beverages and tobacco | Crude materials | Mineral fuels and lubricants | Animal products and waste | Chemicals | Manufactured goods | Manufactures | Vice products of Manufactures | Miscellaneous manufactures and commodities |
| 1971                                       | 60.7  | 30.5                  | 100.9           | 18.8                         | ...                       | ...       | 137.9              | 465.8        | ...                           | 41.7                                       |
| 1973                                       | 68.8  | 20.9                  | 175.9           | 231.1                        | 4.3                       | ...       | ...                | ...          | ...                           | 31.1                                       |
| 1974                                       | 90.8  | 19.8                  | 213.6           | 628.8                        | ...                       | 465.9     | 600.8              | 10,334       | 10,208                        | 36.7                                       |
| 1975                                       | 97.6  | 17.7                  | 198.9           | 711.7                        | ...                       | 456.1     | ...                | 1156.7       | ...                           | 43.0                                       |
| 1976                                       | 120.8 | 32.8                  | 289.4           | 834.9                        | ...                       | 523.2     | 603.7              | 1053.4       | 143.6                         | ...  |

a Figures originally given in Thai Baht converted to U.S. dollars using exchange of 20 Baht to \$1.00

Source: Government of Thailand.

Manufactured exports have been increasing significantly, from 1.3 percent of total exports in 1960 to 25 percent in 1979--over \$1.25 billion from approximately \$5 million. These exports include textiles, garments, wood products, and tires. Thailand also has large deposits of minerals but tin, which has benefited from substantial price increases in the world market, is the most important export mineral.

Oil is a large item in the country's import profile. For 1979, oil imports cost about \$1.74 billion, almost 23 percent of Thailand's total import bill. This is a 58-percent increase over 1978 oil imports. The remainder of the import bill is heavily weighted with capital imports and industrial goods, including transportation and construction equipment, nonelectrical machinery and parts, and chemicals.

Thailand's balance-of-payment deficits in 1979 reached about \$750 million. Despite an excellent year in 1979 for agricultural production, exports and favorable world prices, the balance-of-trade deficit was estimated at \$2.2 billion. This was expected to increase to \$3.4 billion in 1980. Thailand's major trading partners are Japan, the United States, Singapore, Germany, the Netherlands, and Saudi Arabia.

### Trade and industrial development

The Kingdom of Thailand is one of the few developing countries to have never been colonized. Its historical development resulted in a distinctive economic and social structure characterized by widespread ownership of land, a mobile labor

force, an open social system, and predominantly indigenous industrial ownership. The public sector has played a relatively minor role in economic activity; the Government's major contribution to economic growth has been through its investment in infrastructure.

Thailand's trade and industrial policies have generally allowed trade and industry to develop consistent with its widespread productive land area, natural resource endowment, and labor availability. Exports of rice and, to a lesser extent, teak, tin, and rubber increased in response to international demand. Major exporting industries are more labor-intensive than import-competing industries.

#### TRADE STRATEGIES

Trade policies in Thailand have suffered from inconsistency as a result of frequently changing governments. Domestic political considerations have often been given priority and policy changes are often made to deal with immediate and short-term problems with less consideration of long-term effects on exports.

Current Thai trade strategy has three components: expansion of agricultural exports by increasing productivity, promotion of export-oriented industries, and development of domestic energy sources.

The growth of the agriculture sector in Thailand has been accomplished by applying primary technology to an ever-expanding land area. Growth of the agricultural sector is now slowing markedly because the limit to productive land areas available is being reached. The basic policy of the Thai Government's current development plan is to accelerate agricultural production through improved technology to increase incomes and boost export earnings.

Promotion of export-oriented industries was introduced in Thailand's third National Economic and Social Development Plan (1972-76). The goal of the fourth plan of Government assistance for export-oriented industrial production through improved export promotional measures; expanded and diversified foreign markets; marketing assistance; and established industrial export zones in airports and harbors; has achieved some success.

The development of domestic energy sources is based on the need to reduce petroleum imports and centers on Thailand's large reserves of natural gas. Cheaper energy is also expected to contribute to export promotion by reducing production costs, thereby increasing the competitiveness of export products.

#### IMPLEMENTATION OF TRADE STRATEGIES

The Thai Government has adopted programs to support its trade policies. Many agencies are involved in implementing

them, including the Department of Commercial Relations, the Board of Investments, the Department of Industrial Promotion, the Bank of Thailand, and the Customs Department. Persistent problems continue to hinder the success of their programs, however, centering around (1) lack of a long-range policy to increase agricultural productivity and the mechanisms to implement such a policy; (2) limited capability to increase the processing of commodity exports caused by a lack of capital and technology, especially in the mineral sector; (3) limited availability of export credits to support the Government's planned export expansion; and (4) continuing problems in attracting investments and encouraging increased export production.

#### Support for agriculture

The Thai Government is working to increase production in traditional and in new potential export crops. Given the significance of the agricultural sector in the Thai economy and the importance of agricultural products in its export profile, however, more could be done to improve production and encourage increased agricultural exports.

Constraints in the agricultural sector include Government use of export taxes on rice to stabilize domestic prices below the world price level which may act as a deterrent to production eventually leading to declines in exports; land availability and restrictive marketing agreements governing cassava production and export; and problems in quality control for cassava. The Thai Government has improved its standards for cassava, has turned quality control over to private firms, and plans to require bank guarantees/deposits by exporters. However, a November 1980 marketing agreement with EEC will limit cassava exports to this traditional major market.

Attempts to improve rubber exports will be less difficult. Thailand planned and planted to meet an anticipated increase in demand during the 1980s. U.N. Development Program (UNDP) acceleration of a rubber replanting project, with other donor funding, has provided support for the development of the Rubber Research Center and a Thai-Tested Rubber scheme to assure quality and adherence to technical specifications for rubber exported in modern block form. This project has also provided for rubber tree replanting and for training of more than 20,000 farmers.

U.S. Embassy and UNDP officials stated that Thailand's agricultural productivity must increase to have a significant impact on exports. Bank of Agriculture and Agricultural Cooperative agency officials stated that the Government should adopt a strategy to intensify agricultural production in selected priority areas of the country rather than on a country-wide basis. The technology to improve agricultural productivity is available but is not being used because of the lack of (1) long-range

planning to increase productivity and (2) effective mechanisms (e.g., credit and extension programs) for implementing programs to improve productivity.

Various foreign aid organizations including the World Bank, Asian Development Bank, and UNDP have been directing considerable efforts toward Thailand's agricultural development through numerous grants and loans. This aid has been directed at irrigation, crop planting, quality control, and productivity improvement. A U.S.-aided crop-substitution program has also provided export earnings for Thailand from production of flowers marketed to Japan, Hong Kong, and Singapore. An AID seed-development project has produced new maize seeds for eventual export. In addition, the World Bank approved in March 1980, a \$19-million loan to assist farmers in such non-traditional agricultural areas as shrimp farming and palm oil growing. Following market studies, the Government identified sorghum, soybeans, mungbeans, castor beans, and sesame as potential export crops.

Greater manufactured export earnings  
possible through product diversification

Thailand has been attempting to diversify exports of its manufactured goods since the early 1970s. Many opportunities exist to both expand and diversify these exports through the processing of basic agricultural and mineral commodities. Rubber and clothing products have been identified as potential contributors which could diversify and expand the export market.

If Thailand could more fully process its agricultural commodities, greater export earnings could be realized. A surplus in commodities such as rubber and pineapple exists and these could undergo additional processing.

Thailand remains an exporter of raw mineral materials (including tin, barite, fluorite, tungsten, antimony, and manganese) and an importer of processed mineral products. Despite the country's rich mineral base, very few mineral processing industries exist. Thailand lacks the advanced technical knowledge and skills needed to promote mineral processing industries. These are areas where external assistance could assist Thailand in increasing commodity processing and could diversify export production of manufactured commodities. Foreign capital and technology could also provide needed support.

Assistance for export promotion

The Government is actively attempting to support and encourage an export-promotion drive through several agencies and programs such as

- overseas marketing and investment offices, missions, and trade fairs;
- production and export credits;

- investment incentives;
- production and marketing training; and
- establishment of trading companies.

#### Services to Thai exporters

The Export Service Center under the Ministry of Commerce promotes Thailand's exports overseas by providing export-related information, training, advice, and assistance to Thai manufacturers and potential foreign purchasers. Center services are available in Bangkok and at locations in the United States, Australia, and Europe.

The Center displays Thai products and facilitates sales by assisting buyers in obtaining necessary export documents and resolving problems relating to Government procedures. The Center also advises Thai manufacturers of negative feedback it receives from foreign companies, and studies programs and produces suggested guidelines on how to improve products. The Director General of the Department of Commercial Relations said:

"We are trying to convince our exporters to accept their social responsibilities, to have strict quality controls as well as keep to delivery schedules. If they don't do this \* \* \* it will be very difficult for us to find export markets."

The overseas centers are to (1) provide detailed information on trade opportunities in Thailand in general, (2) help bring together specific potential foreign buyers and sellers, and (3) provide the Bangkok Center with information useful in evaluating customer reaction to Thai products. Officials in the New York office cited one activity as identifying U.S. corporations which import from Korea and then contacting them about Thai goods. Officials said, however, that government funding for export promotion is inadequate. In addition, product labeling for items displayed at overseas trade fairs is poor.

The Center publishes several documents which deal with conditions in foreign markets and how Thailand can better participate in them. Frequent seminars are also offered to keep Thai manufacturers informed on market targets, advanced production techniques, packaging for the export market, commodity costs and pricing, and new developments in foreign markets. According to the Director General, efforts are made to familiarize Thai exporters with regulations existing in different markets, GSP market quotas and restrictions, and other information. The Director General also added that the Export Service Center has a goal of establishing a training institute for export-related training.

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The Director General, a Board of Trade official, and the U.S. Ambassador suggested that it would be helpful to the Center if the United States would provide trade-related training and technical assistance to Thailand. The Director General stated that much help which EEC and Australia provided (e.g., technical assistance regarding trade fairs and textile quotas) has been useful. Having been one of those Government officials who received scholarships to study in the United States in the past, she said that the United States could help Thailand by once again providing American training to Thai Government officials.

### Export credit

The Bank of Thailand supports the goal to expand exports by providing an export-financing service. Large exporters may obtain pre-shipping credit needs through (1) refinanced export bills at commercial banks, (2) direct financing for smaller and non-traditional exporters who have had difficulty in obtaining credit from commercial banks, and (3) long-term credit for export-related production. According to a Bank official, this last option is not well known by Thai exporters.

According to a Bank of Thailand official, export financing in Thailand is adequate at present but will not be sufficient for the acceleration of exports that the future development strategy is expected to call for, particularly in the area of non-traditional goods. Small and medium-scale producers have limited access to the financing which is needed to produce non-traditional agricultural products for export. A Bank official said Thailand needs an import-export bank to provide an export credit guarantee program and that a proposal for an Export Credit Guarantee Corporation of Thailand, patterned after a similar program in Great Britain, is currently awaiting Government approval.

### Export-related investment promotion

The Board of Investment supports Thailand's export drive by granting promotional incentives to investments with high export potential and by providing investment services and information. In May 1980, the Government announced a series of measures designed to increase both foreign and domestic investments, but foreign response to date has been poor. One Thai official commented that problems along the Thai-Cambodian border and a perceived threat from Vietnam are inhibiting some foreign investment.

Although Government policy in past years led to investment emphasis on import substitution, the Board now places priority on investment projects with significant export potential in keeping with the current Government export-promotion drive. Foreign-investment requirements are flexible, however, and projects which are labor-intensive, use local raw materials or are agro-based, are considered beneficial and may be granted investment privileges. Government incentives include various guarantees and tax concessions. Additional incentives to export enterprises include

exemption of import duties and business taxes on imported raw materials and components and on re-export items and deductions from corporate taxes related to export income. Additional tax incentives are granted to investors choosing to locate enterprises in export processing zones.

Investment-promotion zones have been established in several rural provinces. Few firms have chosen to locate in these zones, however, because of problems with access to transportation and communication and because of a lack of other services.

The Board has an investment services center in Bangkok. Known as the "one stop shop," the center assists investors and businessmen applying for permits and licenses which the Thai Government requires before companies can begin operations. Because obtaining permits typically involves contacting several offices in numerous departments of three separate ministries, the center is prepared to assist in such matters as having utilities installed, registering the business, paying business taxes, repatriating foreign currency, and locating investment funds.

Although the center also attempts to assist businessmen with government-related problems, it is not always successful. Although the Board claims to resolve from 70 to 80 percent of all problems encountered, other officials stated that the center does not function well, contending that many investors find they must deal with other ministries rather than relying exclusively on the Board of Investment. For example, many businessmen have to deal with the Ministry of Finance and the Customs Department in efforts to obtain tax rebates due them resulting from the Board's promotional status. According to one official, the Board could be more effective if provided a larger budget and staff to implement its programs.

#### Assistance to small-scale production

The Department of Industrial Promotion, under the Ministry of Industry, supports Thailand's export drive by (1) promoting handicraft exports; and (2) providing productivity-related research, training, and technical assistance, and low-cost financial loans to small industries.

The Department promotes handicraft production through seminars and training in design and quality improvement and provides marketing assistance through its exhibition hall and Thai Handicraft Export Showroom in Bangkok. The Department also holds exhibitions on such marketing matters as how to package items for exports. According to a Department official, the Department promotion efforts are somewhat hampered by a lack of funds for a better showroom and a lack of markets for handicraft and cottage industry goods.

The Department indirectly aids Thailand's export drive by providing research, training services, and technical assistance

to Thai industries, many of which are involved in export production. For example, the Textile Industry Division conducts courses in production techniques, offers consulting services to solve manufacturer's technical problems, and maintains research and testing laboratories to improve productivity and product quality. The Department also provides low-cost financial loans to small-scale industries to establish or expand their enterprises, many of which are export-oriented.

#### International trading companies

International trading companies, set up in October 1978, were modeled after highly successful Japanese and Korean enterprises, with a number of incentives for handling exports on a large scale. They were encouraged to use their experience and resources to reduce duplication and overhead costs by serving Thailand's many small producers. However, less than half of 14 such registered companies are currently supporting Thailand's export-promotion drive.

Trading companies export a wide range of items from agricultural and mineral commodities to manufactured, electrical, and automobile parts. The companies have branches in Europe; the Middle East; the United States; and Australia and other Asian countries, to assist in finding overseas markets for these products.

Problems have been encountered in attempting to locate markets and export Thailand's products. According to one trading company official, his firm has trouble obtaining sufficient quantities of export goods. In addition, the trading companies support firms which have already established export markets and produce high quality goods, thereby facilitating existing trade but not encouraging further production. International trading companies appear to be achieving Government export targets, however, even with these problems.

#### IMPEDIMENTS TO MORE RAPID ECONOMIC DEVELOPMENT AND TRADE EXPANSION

Although Thailand's exports have been moderately increasing over the past several years and the Government is supporting the export-promotion drive, impediments to more rapid economic development and trade expansion still exist. Among the frequently mentioned problems are Government "red tape" and bureaucracy; inadequate facilities; inadequate support to promote Thai exports; and trade barriers erected by the developed countries. The rising price of imported petroleum will also hamper attempts to expand exports.

#### Government bureaucracy

Thai officials in both public and private sectors agree that "red-tape" and bureaucratic delays are problems impeding increased investment and economic development in Thailand. In the



crucial export area, problems still remain despite the Thai Government's attempt to improve and streamline some of its procedures.

The Board's "one-stop-shop" notwithstanding, some investors are being required to negotiate with other Thai Government ministries to obtain the investment privileges offered them by the Board of Investment. For certain industries, such as minerals, drugs, natural resources, and small-scale industries suitable for Thai investment, businessmen must seek additional approval and special permission to operate from the appropriate ministry. This process can result in difficulties and delays that go on for years before a project is finally approved by all concerned. Increased cooperation among Thai Government agencies in conjunction with more efficient Board operations could result in increased foreign investment in Thailand.

Exporters, including the large Government-encouraged trading companies, continue to experience problems and delays resulting from government red-tape and bureaucracy. The most frequently mentioned problems concerned delays in obtaining import tax rebates from the Ministry of Finance and the Customs Department for goods brought into the country to be used in the manufacture of products for export, and delays in receiving export approvals from a number of agencies. Thai officials recognize some problems and are beginning to correct them. The Government is considering forming a central organization to handle all export-related matters. Although problems still remain, both U.S. Embassy and Thai Government officials agree that progress is being made.

#### Infrastructure

Another major drawback to Thailand's continued economic development is the lack of adequate infrastructure throughout the country. An Embassy official stated that more capital investment is needed, particularly for port development and communications facilities.

Both public and private sector Thai officials agree that port facilities in particular were inadequate. The port of Bangkok is overly congested and the turnaround time for ships is too long. In addition, the size and type of ships which can be handled is limited. The Thai Government is now considering construction of a deep-sea port.

Development of infrastructure in the rural provinces of Thailand is poor. According to an official of the National Economic and Social Development Board, Thailand's next 5-year plan (1982-86) will emphasize development, in the form of smaller projects, in the rural areas. A Board of Investment official believes that the poor quality of rural life, resulting, in part, from inadequate infrastructure in these areas, has hindered the economic development of the rural provinces by discouraging both foreign and domestic investors from locating their facilities in these regions despite Government incentives to do so.

Trade barriers  
affect Thai exports

We were told that trade barriers erected by the developed countries are having an adverse effect on certain Thai exports. Major export items of textiles and clothing are limited by market quotas. Expansion of sugar exports will be limited by the International Sugar Agreement; cassava exports to Europe are limited by the marketing agreement mentioned earlier.

A U.S. Embassy official explained that the Thais are concerned about what they perceive as the development of protectionist policies by the United States, particularly regarding textiles and footwear. The United States and Thailand have an agreement on textiles, but as yet do not have a footwear agreement. According to this official, the United States can help Thailand by maintaining a liberal trade policy.

Several public- and private-sector Thai officials complained about the complex and complicated U.S. tariff schedule. An example which one Thai trading company provided concerned an athletic shoe manufactured from rubber, canvas, and leather. Computing the U.S. tariff on the shoe is extremely difficult because each part of the shoe is taxed at different rates. Another trading company had to hire an attorney in the United States to help explain the complicated tariff structure. A U.S. Embassy official agreed that one problem that Thai exporters face is the lack of detailed information on U.S. tariff classifications. The Embassy attempts to provide qualified advice when requested.

In addition to difficulties in comprehending the complex U.S. tariff schedule, some Thai officials believe that non-tariff barriers are also hampering Thailand's export efforts. More specifically, the quality control and sanitation requirements for food established by the United States, Japan, and to a lesser degree EEC, cause problems for Thai exporters. A trading company official stated that the United States rejected many canned foods from Thailand last year. Another trading company official believes that the quality control/sanitation standards of the developed countries are just too high for Thailand to meet at this time.

A related problem is that of "block-listing" by the U.S. Food and Drug Administration (FDA). This is a practice whereby FDA detains a particular category of foreign good if only one shipment does not meet U.S. standards. Thai shrimp were block-listed but FDA recently lifted the classification from certain firms which the Thai Government certified as meeting U.S. standards.

Comments from U.S. importers regarding Thai products were generally favorable. Problems they cited relate to various transportation and communication delays. Several importers have had problems meeting U.S. regulations and getting required documents from Thai exporters.

Petroleum cost increases  
hinder economic development

Energy price increases this decade have been the most destabilizing factor in Thailand's economic development. Thailand spent \$1.6 billion in 1979 for petroleum and petroleum products. Compared to 22 percent of its 1979 import bill, petroleum was projected to account for 27 percent of the total import bill in 1980--exceeding the value of capital goods imports. The long-delayed plans to add to Thailand's refinery capacity appear to be deadlocked. Because Thai refineries can only supply about 70 percent of its product requirements, the importation of refined petroleum products has further exacerbated the trade-deficit problem.

In the longer term, several planned energy-development projects should reduce the trade imbalance and should contribute to continuing economic growth. Natural gas production from fields in the Gulf of Thailand is expected to begin in October 1981. Estimates indicate that the reserves may exceed 10 trillion cubic feet. Initial gas deliveries will be used to generate electricity and should reduce oil imports. Planned expansion of hydroelectric and lignite-fired thermal generating plants should also reduce dependence on foreign petroleum and should contribute to increased industrial production/exports in the future.

THE PHILIPPINES

The Philippines is faced with rising import bills, foreign debt, and a rapidly growing population. Previous economic policies have resulted in trade patterns which promote the export of agricultural and mineral products and the use of foreign exchange thus earned to develop a protected, capital-intensive, urban-based industrial sector. The agricultural and mineral sectors can no longer provide sufficient foreign exchange to pay for imports and service foreign debt, nor can they provide employment for the growing Philippine population.

The Government has realized that it needs to correct this situation to further Philippine growth and development and it has shown its commitment to this end by adopting several policies to encourage new labor-intensive manufactured exports and processed commodities; a more competitive industrial sector through tariff reform; and redefinition of investment priorities and incentives.

Some measures which support these policies have been implemented. A tariff reform currently underway is designed to make domestic production more competitive in world markets. Steps have been taken to promote Philippine products overseas through trading houses patterned after successful Japanese and Korean trading company systems. The Government has mandated streamlined procedures for importers and exporters and is attempting to increase the financing available to Philippine traders. Transportation and communication networks, a major deterrent to increased exports, are receiving some Government attention.

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Efforts undertaken by the Philippine Government are likely to increase foreign exchange earnings to the extent that the international economic climate improves. However, to broaden the impact of an export-led strategy by creating greater employment opportunities, additional attention needs to be directed to

- improving the capability of the domestic industrial sector to fully support an export drive;
- improving the quality of domestically produced goods, both for export and to support export industries;
- expanding government services to assist rural areas, either through government agencies or business associations;
- improving performance of overseas trade representatives;
- improving access to financing for small- and medium-scale entrepreneurs; and
- expanding and improving the physical and financial infrastructure, which is not yet adequate, to allow increased development in rural areas.

The Government is receiving some external assistance to support its export-promotion programs. Further technical assistance would speed the implementation of some programs and speed improvements in areas which the Government has not directly targeted, such as training and quality control.

### COUNTRY PROFILE

According to the World Bank classification, the Republic of the Philippines is characterized as a middle-income country, with an annual per capita income of \$510, an 87-percent adult literacy rate, and a life expectancy of 60 years. The population in 1979 was 47 million, growing by 2.37 percent a year or over 1 million people annually, and is estimated to stabilize in the year 2075 at 126 million people.

The expanding population has also resulted in a growing labor force. The World Bank has estimated 600,000 annual entrants to the labor force in the 1980s. The Bank also estimates, that the agricultural sector will be able to absorb only 40 percent.

The economy experienced relatively rapid growth during the late 1970s. Estimates show that in 1978, the GNP rose 6.2 percent and in 1979 it rose 5.8 percent. Per capita income is estimated to have risen 3.2 percent and 4.1 percent, respectively,

during those years. Income distribution, however, is heavily skewed in favor of the top 10 percent of the population.

The industrial sector concentrated around Manila comprises 35 percent of gross domestic product (GDP), of which 25 percent is accounted for by manufacturing. The agricultural sector is 27 percent of GDP and the service sector comprises the remaining 38 percent.

The Philippines imports oil to meet 81 percent of its energy needs, and oil-price increases during the 1980s had far-reaching effects on the economy. The Philippines had seen a massive increase in its external debt over the decade. Gross disbursements from medium- and long-term external borrowing grew from \$400 million a year prior to the first energy crisis (1973-74) to over \$2 billion a year at the end of the decade. The 1979 oil-price increases exacerbated the current account deficit which was expected to reach \$2.2 billion in 1980--5.8 percent of GNP. The increases also adversely affected the rate of growth and the rate of inflation. Real growth was expected to be between 5 and 6 percent in 1980. The rate of inflation which stood at 7 percent annually between 1976 and 1978, reached 19 percent in 1979.

The Philippine Central Bank projected a debt-service ratio (i.e., service payments on external debts as a percentage of exports of goods and non-factor services) of 28.1 percent in 1979. Projections for 1980 ranged from 22 to 36.6 percent, far exceeding the generally recognized acceptable maximum level of 20 percent.

#### Trade profile

The Philippine economy depends on trade. In 1979, exports totaled \$4.6 billion (20 percent of GNP) and imports were \$6.1 billion. The United States is the principal market for Philippine exports (35 percent) and is second to Japan as the most important source of Philippine imports (22 percent).

In 1979, the Philippines balance-of-payment deficit was \$570.4 million--ten times more than the 1978 deficit of \$54.3 million. Despite a substantial rise in exports, the trade balance deteriorated by \$1.2 billion primarily due to the high cost and magnitude of its oil imports. In 1979, purchases of mineral fuels, lubricants, and related materials accounted for 22.5 percent of total imports. Consumer goods accounted for only about 6 percent of the total.

The Philippines is predominantly a commodity exporting country. Sixty percent of its foreign exchange is earned from coconut oil, copra, sugar, logs and lumber, copper, and other commodities. Primary exports, however, can no longer keep pace with import expansion.

During the past decade, the composition of leading export items has changed. Non-traditional, manufactured exports have become more important to the Philippines and have been the most dynamic source of growth. These exports have increased at the rate of about 30 percent a year, raising their share of total exports from 9 percent in 1971 to 26 percent in 1979. The principal manufactured exports are garments and electric and electronic goods (increasing 27 and 78 percent, respectively, in 1979), chemicals, cement, wood and cork manufactures, rubber manufactures, paper and paperboard manufactures, and leather manufactures. Most of these industries tend to be labor-intensive, and depend on imported raw materials.

In addition, the Philippines has increased the processing of its primary products, thereby, achieving a higher percentage of domestic value added. Many planned primary product processing industries are mainly large-scale and capital-intensive.

Labor is becoming an increasingly important source of foreign exchange earnings for the country. Remittances from Filipinos working overseas reached \$650 million in 1979. This, however, poses a potential problem through creation of a shortage of skilled laborers, mid-level managers, and planners who have emigrated.

#### Historical trade and development patterns

The pattern of growth during the 1950s, 1960s, and early 1970s resulted in a distorted industrial structure and skewed development in favor of capital-intensive, urban-based industrial development. Postwar trade and industrial development policies provided strong protection for selected domestic industries. Excessive protection led to high-cost production, inefficient use of resources, limited export development and overconcentration of industry around Manila. Foreign exchange earnings from the agricultural and mineral extractive sectors were used to pay for imports for import-dependent and import substituting industries. The industrial sector which resulted was heavily oriented toward large-scale, capital-intensive industries, principally geared to serving high-income consumers in local markets.

The employment patterns which resulted from this growth show a relatively constant 14 percent of the labor force in the industrial sector. At its present low levels of productivity, the agricultural sector has absorbed more labor than it has available full-time jobs resulting in widespread underemployment.

In the early 1970s, the Government realized that exports in general (and manufactured exports in particular) needed to be more actively encouraged to overcome distortions in the economy. The Export Incentives Act was introduced in 1970, making fiscal benefits available for eligible export products.

Additional related policy measures included floating and subsequent depreciation of the currency in 1970, and the introduction of various export-promotion measures designed to give selected exporters of non-traditional manufactures access to duty-free imports. Initial steps were taken in 1973 to reform the tariff system by simplifying the rate structure and reducing the rate spread. Various programs for the promotion of small- and medium-scale industries were also adopted, and the Ministry of Industry was established in 1974. Manufactured-exports performance, especially of nontraditional goods, improved as a result of the selective promotion measures. However, the export sector remained isolated because of its dependence on imports; overall employment and growth improved only marginally.

Resulting problems are now exacerbated by the rising cost of petroleum imports and rapid population increases, evidenced by massive balance-of-payment deficits and large-scale unemployment--about 900,000 with a further 2.9 million underemployed--or about 25 percent of the labor force.

Because the growth of the modern economy has been closely tied to export and import policies, performance of the trade sector plays a crucial role in determining prospects for future growth.

#### The role of trade in development strategies

The Philippines' 10-year development plan (1978-87) is focused on developing the agricultural base. The main thrust of agricultural policies during the 1980s will be to aim for continued increases in agricultural production, stressing the production of cheap, but highly nutritive food that could also earn revenue through foreign exchange. In addition, the Agricultural Ministry is intensifying efforts to produce commodities which are traditionally imported, such as wheat, cotton, and soybeans.

The Philippine Government recognizes in the plan that greater industrial improvements are essential, mandated by the need to (1) provide income-earning opportunities, and (2) generate foreign exchange.

The current 5-year development plan (1978-82) as part of the overall 10-year plan has, as its strategy, growth with equity with two basic components: (1) the expansion of labor-intensive export products to earn revenue through needed foreign exchange and (2) expansion of labor-intensive agricultural production and small- and medium-scale industry in the rural sector to serve rural demand. Extensive Government investment, augmented by substantial borrowing from foreign donors is intended to finance required physical infrastructure and social service delivery systems. The Government relies on the private sector to provide much of the financing for the industrial sector.

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A large portion of the foreign donor financing is to come in the form of a World Bank \$200-million structural adjustment loan approved in late 1980. The loan is to support a comprehensive industrial development program designed to

- maintain the rapid growth of non-traditional exports through a focused and organized export-promotion effort;
- restructure 14 key industry sectors in part by opening foreign investment industries previously categorized as "overcrowded;"
- implement plans for 11 major industrial projects, although the timetable on some projects has been slowed to allow further consideration;
- accelerate the dispersal of industries away from Manila;
- increase emphasis on the promotion of small- and medium-scale industries; and
- insure closer cooperation between the Government and private sector in planning and implementing industrial policies and programs.

AID is also providing assistance aimed at industrial development with new programs designed to emphasize employment creation.

### TRADE STRATEGIES STRESS EXPORT PROMOTION OF NON-TRADITIONAL PRODUCTS AND TARIFF REFORM

The Philippines has stated its intention to concentrate on reorienting trade policies toward greater openness and on lowering protection. This is to be accomplished by reducing and evening out the tariff rate structure, promoting exports, making more financing available for export production and encouraging export-related investments. The Government has instructed appropriate agencies to streamline import and export procedures by simplifying information requirements; exempting small and medium projects from some requirements; and reducing processing and evaluation periods to administer investment incentives.

Despite streamlined procedures, representatives of private Philippine companies and American importers who responded to our survey, complained of excessive government "red tape." One importer said that "the Board of Investment tries to help export promotion but problems and delays usually result." Export programs have encountered some problems and some areas not covered by Government trade policies retard export production increases.



Creation of a dynamic export sector, based on the country's comparative advantage is the key to the Philippines' industrial development program. The Philippines' advantage lies in a relatively inexpensive and large labor force and a substantial raw material base. The Government is expected to promote the following for export: electronic products; garments; furniture and wood products; shoes and leathercrafts; and processed fruit, vegetables, and seafood. Diversifying markets to lessen dependence on the United States and Japan will accompany product diversification. Several Philippine ministries, including agencies under the Ministry of Trade and the Ministry of Industry, provide support to the export sector. Although many export program initiatives have been proposed, implementation and progress has been slow.

#### Tariff reform

A four-stage tariff reform mandated by the 5-year development plan became effective January 1, 1981. During stage I it will decrease all tariff rates above 50 percent. Tariffs of 100 percent will be lowered to 70 percent in the first year; tariffs of 70 percent will be lowered to 50 percent in the second year when the maximum tariff will become 50 percent. During stage II a review of tariffs will be done for such items as textiles and garments; food processing; leather and leather products, and pulp and paper. During stage III, tariffs in industries, such as cement; iron and steel; autos; and wood and wood products will be reviewed. During stage IV the Government will review tariffs of such goods as agriculture and forest products; basic metals; plastic and chemicals. Tariff reductions will be made over a 3-year period.

#### Export promotion

The Ministry of Trade is charged with the task of developing, promoting, and expanding both domestic and international trade. Ministry assistance to exporters is mainly service-oriented and includes trade information and dissemination programs and market and product research studies which are available to producers on request. The Ministry trade promotion centers overseas also conduct marketing studies and alert Philippine producers to export opportunities.

The Philippines receives multilateral marketing assistance from the International Trade Center which is conducting a GSP Technical Assistance Project (also funded by Germany, the Netherlands, Switzerland, Norway, and the United States). Under this project, a marketing-assistance program will be developed for Philippine furniture exports to the United States. UNDP is also involved in a joint export-promotion effort with the Philippines.

The Ministry of Trade organizes trade fairs and overseas trade missions and is also responsible for enlisting the support of the private sector for its export-promotion efforts. To participate, a firm must be a member of one of the eight to

ten business chambers which the Ministry recognizes. The Government provides only minimal financial support for such missions.

Representatives of the Philippine private sector told us that official Philippine channels for trade information are too time-consuming to be useful and that budgetary support for export promotion programs is too low. Our survey of U.S. importers indicated examples where Philippine producers did not respond to U.S. trade inquiries and, thus, lost potential sales.

Several agencies and programs under the Ministry of Industry are also involved in Government export-promotion efforts. These agencies include the Board of Investments, the Export Processing Zone Authority, and the export trading companies program.

#### Board of Investments

The Board of Investments grants incentives to encourage certain investments identified in its annual priorities plans. Both the investment priorities and export-priorities plans have export promotion as a major goal. The general policy objectives of the investment-priorities plan are promotion of labor-intensive products, regional dispersal of industry, development of small- and medium-scale industry and promotion of manufactured exports. The export-priorities plan implements the general Government policy to encourage and diversify exports of goods and services; to promote the development and processing of domestic raw materials; and to develop new markets for Philippine products to increase foreign exchange earnings, promote employment, and hasten economic development. Both plans seek to realize the same objectives by emphasizing foreign exchange earnings. There are 78 projects in the eleventh export-priorities plan; many are concentrated in the metal-based sector. Fifty-five projects or 71 percent are large-scale. Although these projects may produce export products and earn foreign exchange, their large scale and capital requirements do not support the government goals of employment creation and support of small and medium enterprises.

Twelve export trading companies patterned after the Japanese and Korean trading company system also come under the Ministry of Industry. These companies have been mandated, and encouraged by tax deductions, to locate offices overseas to facilitate export activities of smaller firms.

The export trading companies have not had much success in encouraging greater production and export of Philippine products. Although the Government believes these organizations are performing well, many businesses and the trading companies themselves are unsatisfied with the performance to date.

#### Export processing zones

Export processing zones have been established to increase Philippine exports by attracting foreign investments with

established products and markets which are looking for a low-cost production base. These zones are operated under the Export Processing Zone Authority. According to the Administrator of the Zone Authority, they also serve other purposes: to disperse industry from Metro Manila; to open employment opportunities; and to ease pressure on developing a country-wide infrastructure capacity by grouping industries around transportation, communication, and other facilities. Three zones are in operation; a total of 15 are planned.

Various promotional activities have attracted industries to the zones. Discussions have been held between the U.S. Overseas Private Investment Corporation (OPIC) and the Export Processing Zone Authority to have OPIC assist in identifying those medium-sized U.S. companies which are interested in business abroad. The Philippine Government is planning seminars in the United States during 1981 to attract potential investors.

The export-processing zones are hampered in their ability to have a greater impact on Philippine exports and on the economy as a whole, because the linkages envisioned to occur within the domestic economy have not materialized to any great extent. Zone firms are mainly assembly industries using imported components because there is a lack of domestic support industries to supply raw materials and components. As long as imported components are less expensive and of better quality than domestic products, linking these export industries to domestic production with concomitant beneficial employment effects is not likely to occur.

Government training programs also have not been fully implemented and some zone firms are actually laying off employees, thereby negating Government attempts to increase employment opportunities. We were also told that export increases, which resulted when the zones were established, are largely artificial. Companies export only enough to meet minimum Government standards; companies will not produce more goods than are already ordered, on their own initiative.

Representatives of companies operating in the export-processing zones said they had encountered problems with the lack of transport facilities, shortage of labor, and bureaucratic "red tape" and delays.

#### Financing

The Central Bank has long had a policy of liberally discounting local currency loans for export-oriented, labor-intensive industries. Throughout 1979, the Government mandated improvement of rediscounting export loans by the Central Bank. Marginal deposit requirements for imported inputs into export industries were reduced from 50 to 25 percent.

Notwithstanding Government attempts to enlist the private financial institutions to support export promotion, Government efforts to increase export financing have been less than

successful. Companies told us that export financing is neither readily available nor adequate. One U.S. importer said that "factories are not adequately financed and they take business without an ability to deliver."

The Philippine Export Loan Guarantee Corporation, set up in 1978 to encourage private bank lending to exporters has not been effective to date. Private banks are "collateral conscious" often requiring land (which small entrepreneurs do not have) as loan collateral. They also lack the capability to analyze the viability of investment proposals. All this is compounded by a private-sector perception that Government credit facilities are too bureaucratic.

#### Other internal impediments to trade

Delivery of goods was also a problem identified by several U.S. businesses in our survey. Unreliable deliveries and high transportation costs were cited as deterrents to importing Philippine products. Shipping costs are already becoming an increasing factor in Philippine balance-of-payment deficits and these costs are likely to increase.

The lack of adequate infrastructure is another major deterrent to exports in the Philippines, although not one limited to the export sector. Despite extensive Government spending in this area, companies still encounter numerous transportation and communications problems. The Government's success in encouraging firms to locate outside the Manila area will partially depend on its ability to provide services to regional areas.

The World Bank has loaned funds for infrastructure (highways, port works, power generation and water supply), and transportation (shipping) and the Asian Development Bank has loaned funds to improve port facilities (with German co-financing) in Manila. The Japanese are providing capital assistance for such things as highway construction, port works, and hydroelectric generating plants.

The quality of goods for export is another problem requiring attention in the Philippines. In our survey of U.S. importers, poor quality of goods was often cited as a problem in importing from the Philippines and was cited as a reason for ceasing to import. Foreign companies located in the Philippines complained about poor quality control in manufactures. In agricultural processing industries, poor quality and inability to meet health standards were also cited as problems, and in small-scale operations, quality control is even worse.

The Government recognizes that its producers have difficulty in controlling quality. The Philippine Bureau of Product Standards provides some technical assistance to producers and is responsible for developing some product standards. Even though this Bureau exists, we heard numerous complaints about a continuing lack of quality in Philippine products.

Multilateral and bilateral donors have provided assistance. The United Nations Industrial Development Organization (UNIDO) has sponsored a program to develop Philippine quality control systems and to improve production. For example, UNIDO worked with the garment industry to identify weaknesses, to develop standards, and to lower waste.

The United States has also provided some assistance to the Philippines in this area. The U.S. National Bureau of Standards and U.S. Consumer Product Safety Commission have been helpful according to Philippine officials. For example, the Commission worked with the Philippine commercial officer in Washington to assist in a Philippine investigation of shirts which did not meet U.S. flammability standards. Although Commission officials stated that they cannot offer technical assistance to developing countries, they believe more regular communication with developing-country manufacturers would be effective in curbing quality-control problems. FDA uses a variety of forums to keep developing countries abreast of U.S. requirements, including technical assistance to the extent its resources allow. The Philippines participated in an FDA workshop to help foreign firms overcome problems in harvesting, handling, and shipping shrimp. Even with this assistance, quality control remains a negative factor in Philippine export development.

#### External factors inhibit export growth

Non-traditional exports depend on international markets and the general strength of the world economy; commodities, which are a major source of foreign exchange, remain highly volatile in price. According to Philippine and U.S. officials and businessmen, tariff and quota restrictions in importing countries severely restrict the ability of the Philippines to accomplish its goals through an export-promotion policy. Some product areas have already been restricted, such as textiles under the Multi-Fiber Agreement. Uncertainty also surrounds future restrictions in other areas. For example, one U.S. official characterized the GSP program as one which encourages developing countries to expand exports into new areas; as these exports are expanded, the importing countries impose restrictions.

Filipino businessmen and Government officials were also concerned about the apparent growing protectionism in traditional and potential markets. They believed that if the trend continues, export growth policies may need adjusting. They also said that other areas which affect Philippine export policies and where developed-country trading partners could assist relate to

- facilitating trade missions and fairs, especially those sponsored by the private sector;
- providing better explanations of "trading" preferences, rules, and regulations (e.g., GSP, health regulations and standards);

- ensuring that commercial officers stationed in developing countries are knowledgeable in both imports and exports;
- encouraging State-level trade missions in the United States (such as are currently mounted by Washington, Illinois, and Hawaii) which could be beneficial to all participants; and
- assisting labor-intensive industries.

#### INDONESIA

Prior to the massive rise in international petroleum prices, Indonesian Government leaders began to heed external advice on the need for export-oriented industrial development to generate employment, foreign-exchange earnings, and to compensate for declining oil production. The Government adopted various policies and started implementing programs toward this end but the major increase in international oil prices in 1979 gave the Government such massive foreign-exchange earnings that a sense of complacency set in. Interest in structural changes geared toward increased and diversified exports has diminished even in the face of continuing predictions of future declining oil exports.

Indonesia faces several problems in improving its (non-oil) trade position:

- Several Government departments are involved in trade, including Agriculture, Finance, and Industry as well as Trade, but no coordinating board or effectively functioning mechanism exists to address intra-governmental or external trade problems. The National Agency For Export Development serves an advisory function under the Department of Trade and Cooperatives, but has neither the authority nor power to coordinate and implement a cohesive export-development program.
- Indonesia suffers from a scarcity of technicians and middle-level managers.
- There is a need for administrative reform; the hierarchial nature of the bureaucracy overburdens top officials.
- Indonesian producers are not export conscious and generally lack fundamental knowledge of export management and techniques.
- One of the biggest obstacles to improved export development is poor infrastructure including roads, ports, communications and supporting services. International shipping is irregular and freight rates are expensive. Inter-island shipping is undependable. Warehousing is monopolistic and costly and cargo handling is to some degree careless and indifferent.

- The effort to improve standardization and quality control is fragmented. Each directorate-general in each department has an agency for standardization and/or quality control which devises and enforces its own criteria.
- There is a lack of adequate export financing and credit for small-scale, export-oriented production. Interest rates are high and application procedures are extremely cumbersome. While some export disincentives have been eliminated, there are few direct incentives.

Although Indonesia is receiving bilateral and multilateral assistance in the areas of infrastructure development, trade promotion, and quality control, more is required in the latter categories to develop necessary trade expansion and diversification.

#### COUNTRY PROFILE

The Republic of Indonesia stretches across the strategic sea lanes between the Indian and Pacific oceans, covering a land area of over 735,000 square miles. It is composed of over 3,000 islands; the five largest are Java, Sumatra, Sulewesi, Kalimantan, and Irian Jaya. Indonesia ranks among the world's poorest nations despite its position as an oil producer and member of the Organization of Petroleum Exporting Countries (OPEC). Average per capita income is estimated at \$350 to \$400 per year; malnutrition, poor health, and low life expectancies (48 years) characterize two-thirds of its 143-million population which is projected to reach 207 million by the year 2000 and to stabilize at 357 million in 2145.

Indonesia has a wealth of resources. In addition to petroleum, liquefied natural gas, and some of the richest timber reserves in the world, Indonesia boasts of relatively unexploited tin, copper, nickel, coal, and bauxite. The economy is primarily based on agriculture, and mineral and oil extraction. The manufacturing sector is still in the early stages of development. Small agricultural holdings provide employment for nearly 60 percent of the labor force. Estate agriculture for rubber, palm oil, coffee, tea, and sugar is becoming more important as a foreign-exchange earner.

Due to its petroleum exports and international oil price increases, Indonesia enjoyed an overall balance-of-payment surplus of \$1.7 billion for 1979-80. The surplus for 1980-81 is expected to reach \$3 billion. Indonesia's reserves were \$6.7 billion as of September 1980 and about \$10 billion by the end of 1980.

Indonesian's GNP increased an annual average of about 7 percent; per capita income increased an annual average of 4.5 percent between 1974 and 1979. The major impetus for this growth,

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however, came from the oil and industrial sectors which did little to absorb the country's excess labor.

### Trade profile

In 1979, petroleum exports totaled about \$10 billion and accounted for 70 percent of overall gross foreign-exchange earnings. This represented an increase of about \$3 billion from 1978 levels due entirely to the higher price of crude oil since export volumes were lower. Indonesia's oil wealth should be kept in perspective; each additional billion dollars of oil earnings only translates to about \$7.00 per capita.

Indonesia's major trading partners are Japan, the United States, Europe, and Singapore, which in 1978 took 39.2, 25.5, 8.7, and 10.7 percent, respectively, of Indonesia's exports. Imports are principally from Japan (30.1 percent in 1978); Europe (23 percent); the United States (12.4 percent); and Singapore (6.8 percent); and were composed of raw materials (39.8 percent), such as chemicals and pharmaceuticals, iron, and steel bars/plates; capital goods (42.3 percent), including machines and motor vehicles; and consumer goods (17.9 percent). (See the following table for further details.)

Export Developments 1974/75-1979/80

| (dollar figures<br>in millions) | 1974-75 | 1975/76 | Percent<br>Change | 1976-77 | Percent<br>Change | 1977-78 | Percent<br>Change | 1978-79 | Percent<br>Change | *<br>1978-79 | **<br>1979-80 | Percent<br>Change |
|---------------------------------|---------|---------|-------------------|---------|-------------------|---------|-------------------|---------|-------------------|--------------|---------------|-------------------|
| I, Main Commodities             | 1,576   | 1,414   | (10.3)            | 2,229   | 57.6              | 2,817   | 26.4              | 3,115   | 10.6              | 1,154.8      | 1,787.4       | 54.8              |
| Lumber                          | 615     | 527     | (14.3)            | 885     | 67.9              | 943     | 6.6               | 1,130   | 19.8              | 396.4        | 702.8         | 77.3              |
| Rubber                          | 425     | 381     | (10.4)            | 577     | 51.4              | 608     | 5.4               | 774     | 27.3              | 286.3        | 429.2         | 49.9              |
| Tin                             | 166     | 158     | (4.8)             | 181     | 14.6              | 253     | 39.8              | 324     | 28.1              | 108.3        | 146.3         | 35.1              |
| Palm oil                        | 184     | 142     | (22.8)            | 147     | 3.5               | 202     | 37.4              | 221     | 9.4               | 74.3         | 83.0          | 11.7              |
| Coffee                          | 92      | 112     | 21.7              | 330     | 194.6             | 626     | 89.7              | 508     | (18.8)            | 213.5        | 348.5         | 63.2              |
| Tobacco                         | 36      | 40      | 11.1              | 41      | 2.5               | 59      | 43.9              | 58      | (1.7)             | 33.2         | 35.4          | 6.6               |
| Tea                             | 50      | 50      | 0.0               | 64      | 28.0              | 120     | 87.5              | 98      | (18.3)            | 42.4         | 37.2          | (12.3)            |
| Palm oil kernel                 | 8       | 4       | (50.0)            | 4       | 0.0               | 6       | 50.0              | 2       | (66.7)            | 0.4          | 5.0           | 1,150.0           |
| II Other Commodities            | 457     | 459     | 0.4               | 634     | 38.1              | 690     | 8.8               | 864     | 25.2              | 260.3        | 539.9         | 107.4             |
| Livestock and products          | 92      | 105     | 14.1              | 146     | 39.0              | 179     | 22.6              | 212     | 18.4              | 78.9         | 105.9         | 34.2              |
| Pepper                          | 22      | 25      | 13.6              | 55      | 120.0             | 62      | 12.7              | 66      | 6.5               | 21.3         | 21.5          | 0.9               |
| Copra cake                      | 22      | 29      | 31.8              | 36      | 24.1              | 33      | (8.3)             | 34      | 3.0               | 11.7         | 14.6          | 24.8              |
| Copra                           | -       | 3       | -                 | -       | -                 | -       | -                 | -       | -                 | 0.1          | -             | -                 |
| Food stuffs                     | 77      | 54      | (29.9)            | 62      | 14.8              | 61      | (1.6)             | 93      | 52.5              | 22.9         | 32.3          | 41.0              |
| Minerals                        | 130     | 99      | (23.8)            | 139     | 40.4              | 110     | (20.9)            | 99      | (10.0)            | 39.7         | 60.0          | 25.9              |
| Miscellaneous                   | 114     | 144     | 26.3              | 196     | 36.1              | 245     | 25.0              | 360     | 46.9              | 85.7         | 315.6         | 268.3             |
| Total (I+II)                    | 2,033   | 1,873   | (7.9)             | 2,863   | 52.9              | 3,507   | 22.5              | 3,979   | 13.5              | 1,415.1      | 1,627.3       | 64.5              |
| III Oil                         | 5,153   | 5,273   | 2.3               | 6,350   | 20.4              | 7,353   | 15.8              | 7,374   | 0.3               | 2,887.3      | 3,376.6       | 16.9              |
| Total (I + II + III)            | 7,186   | 7,146   | (0.6)             | 9,213   | 28.9              | 10,860  | 17.9              | 11,353  | 4.5               | 4,302.4      | 5,703.9       | 32.6              |

\*April-August

\*\*April-August provisional figures

Source: Government of Indonesia, National Development Information Office.



According to the U.S. Embassy, two-way trade in 1979 between the United States and Indonesia totaled \$4.6 billion--an increase of \$244 million over the previous year. U.S. exports to Indonesia, at \$980 million, were up 31 percent while imports from Indonesia were up 0.4 percent to \$3.6 billion. Seventy-four percent of U.S. imports from Indonesia were petroleum and petroleum products (\$2.7 billion). Next in importance were: rubber (\$458 million); coffee (\$211 million); natural gas (\$79 million); spices (\$35 million); electronic components and parts (\$33 million); and tea (\$18 million). Major U.S. exports to Indonesia were: agricultural products (\$339 million)--wheat (\$97 million), rice (\$89 million), cotton (\$81 million), oil seeds (\$28 million); chemical and related products (\$137 million); organic chemicals (\$36 million); synthetic resins (\$45 million); and machinery and transportation equipment (\$407 million); engineering and contracting (\$41 million); and aircraft (\$208 million).

Indonesia uses import prohibitions and tariffs to protect domestic industries. For example, the Government prohibits the importation of assembled automobiles and commercial vehicles to protect its domestic industry. Prohibited imports also include certain batteries and tires, some cloth, and publications. Import restrictions include textiles and clothing, foodstuffs, chemicals, and newsprint.

#### Trade-related development needs

Indonesia declared independence from the Netherlands in 1945. The country faced immense development needs, ranging from infrastructure, such as roads, to establishing a governmental organization and creation of a national identity. Under the Sukarno Government, the existing infrastructure was permitted to gradually deteriorate, as did the economy in general, due to material and equipment shortages. Problems were exacerbated by large Government expenditures on military equipment used in the Indonesian Government policy of "confrontation" with Malaysia and on unproductive prestige projects.

Sukarno's gross mismanagement of the economy resulted in inflation of 650 percent by 1966. An abortive communist coup in 1965 resulted in Sukarno's loss of power; in 1966 General Suharto established the New Order. The new government directed its attention to policies of monetary stabilization and rehabilitation of infrastructure and production facilities. The First 5-Year Development plan (1969-70--1973-74) was concerned with increasing agricultural production and continued rehabilitation of roads and irrigation systems. The Second 5-Year Development Plan (1974-75--1978-79) was generally directed toward employment generation as well as continuation of the first plan's objectives.

Estimates of unemployment (1976) ranged from 1.9 to 33 percent; estimates reach as high as 50 percent when underemployment is included. In 1977, 56 percent of the population was of working age (15 to 64 years of age).

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Indonesia's development needs relate to the projected decline in future oil exports and to the necessity for employment generation and diversification/expansion of export products. They include

- increasing agricultural production, particularly in secondary and export crops;
- building and/or improving infrastructure for internal communications and transportation; and
- attracting investments for industrial development/manufacturing and the processing of commodities/resources into semi-finished and finished goods.

Successful implementation of policies and programs to address these needs depends upon Government commitment and willingness to streamline and insure coordination within a complex, hierarchical, government structure.

### TRADE STRATEGY

Various trade reforms were undertaken during the second development plan to (1) make Indonesian exports more competitive on the international market, (2) increase export volume, and (3) encourage diversification. The Government intended to make major structural changes in the economy to encourage labor as opposed to capital intensive production. Reforms included

- eliminating or reducing of export taxes;
- eliminating the trading stamp;
- rescheduling of harbor service costs;
- establishing competitive transportation tariffs for export goods;
- eliminating the tax on processed wood products in order to stimulate value-added processing;
- increasing the tax on raw timber exports to 20 percent;
- eliminating the import tax and customs duty for raw materials imported for export production;
- increasing various support services to export production;
- establishing trading centers in New York, London, and Hamburg; and
- devaluating the Indonesian rupiah from R.415 to R.625 to U.S. \$1.00.

The reforms had some positive effect. For example, stimulated in part by devaluation, manufactured exports grew by 73 percent to \$571 million in 1979 and appeared likely to exceed \$700 million in 1980. The leading manufactured/processed exports were wood products (\$44 million); shrimp and other fish (\$220 million); electronic parts, such as semi-conductors (\$76 million); textiles (\$52 million); and garments (\$66 million).

Indonesian petroleum production is expected to stabilize within the next few years, and an increasing percentage of future production will be from higher-cost offshore wells and secondary recovery. Foreign officials and energy specialists project that Indonesia will no longer be an oil exporter by the year 2000 due to rising domestic consumption--even when balanced against optimistic estimates of Indonesian oil reserves. These assessments are apparently disputed by the Indonesian Government; the Department of Mining and Energy is reported to have recently (late 1980) announced that Indonesian oil reserves are "good for the next 50 years" because "new oil fields are constantly being found." The third development plan aims to increase net export earnings for non-oil commodities and manufactured goods by 90 percent, while oil and gas earnings are expected to rise by 28 percent.

The Government's current trade strategy encompasses (1) promotion of non-traditional exports; (2) diversification of export commodities and export markets; (3) improvement in quality of exports; and (4) processing of products into finished and semi-finished, value-added goods. The Government's goal of diversifying exports is based on the need to lessen its vulnerability to international market forces, increase industrial development, and provide employment.

The Government's current industrial development policy is directed toward import-substitution, while promoting an increase in labor-intensive exports. Indonesia has a potentially large domestic market but at present the actual manufactured consumer goods market is too small to support a high manufacturing growth rate. A strong political commitment to export orientation appears necessary to achieve any meaningful goal of labor intensive industrialization.

#### IMPLEMENTATION OF TRADE POLICY

Both the third development plan and the President's 1979-80 Budget speech greatly stressed export development, but the Government development budget allocation for the trade and cooperative sector is perhaps indicative of the actual Government commitment to implementation of this policy. The trade and cooperative sector was allocated \$198 million (0.5 percent) of the \$4.1 billion 1978/79 development budget; it received \$489 million (0.8 percent) of the \$6.4 billion 1979/80 budget. <sup>1/</sup> These are very small allocations; only the information/communications and religion sectors received less.

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<sup>1/</sup>Using a conversion rate of R. 625 to U.S. \$1.00.

Indonesian Government economists play an important role in ranking development needs and trade policies by priority and have shaped the country's economic structure and finances. These economists are highly educated (for the most part in the United States) and competent. However, they have had some conflict with military groups within the Government. Domestic popular opinion, most particularly among nationalistic student groups, is that these economists are "foreign dominated." These experts are, thus, constrained in promoting trade policies by what is politically feasible within the Indonesian context.

The complex Government structure has led to fractured program implementation. Implementing Government export promotion and diversification programs rests heavily on the National Agency for Export Development, which as presently constituted does not have the necessary authority to insure effective program implementation. Several Government departments, including Agriculture, Finance, and Industry as well as Trade and the National Agency for Export Development have responsibilities which affect the trade area. There is no coordinating board or effectively functioning mechanism to address intra-governmental or external trade problems.

#### National Agency For Export Development

The National Agency For Export Development's effectiveness is limited by its advisory role in the Department of Trade and Cooperatives which does not confer the authority necessary to conduct an aggressive and effective export promotion policy. The International Trade Center, which has provided technical assistance and training to the Agency since its establishment, recommended in a 1979 report that:

"The powers of the National Agency for Export Development have to be strengthened so that it will become more of an operational body executing the Government export development program than act as an advisory agency on export development, as is being done at present \* \* \* NAFED has to be bestowed with sufficient authority to coordinate and integrate the activities of other government and private agencies and also should have the authority to create the necessary institutions and organizations and assist in their operation for an eventual successful export development program."

The agency functions as a liaison between Indonesian exporters and foreign importers; advises the Government on export policies and regulations; and provides assistance and training to Indonesian manufacturers and exporters. The Agency also conducts foreign market surveys and analyses of Indonesian export potential, concentrating its promotional efforts in three groups:

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- Handicrafts: traditional textiles, batiks and weaving; wooden carvings, decorations and household items; furniture made of rattan, bamboo and wood; ceramics; jewelry.
- Agricultural products: cattle feed; flowers, fruit, vegetables; fish and sea products; essential oils; spices; forest products (e.g., rattan and resins); tobacco; tea; nuts.
- Industrial products: plywood and processed wood; mass-produced textiles and garments; chemicals, pharmaceuticals and cosmetics; canned foods and beverages; shoes and other leather products.

Promoting products is particularly important for Indonesia. In our survey of American importers, 53.5 percent of the importers who responded and at the same time who do not deal with Indonesia, cited unfamiliarity with Indonesian products as a principal reason for not importing from the country.

The Agency does not have its own representatives throughout the country, but depends upon representatives under the jurisdiction of other elements within the Department of Trade and Cooperatives for export-promotion activities. Emphasis on product development and adaptation for export has therefore been limited. It also depends upon overseas commercial officers who likewise are not under its authority. While the officers' activities are supposed to be coordinated with the Agency, internal coordination/cooperation is weak within the Indonesian Government.

### Foreign investment

The Government recognizes the importance of foreign investment for trade development and growth. As discussed in a February 1981 GAO report, 1/

"The Indonesian Investment Coordinating Board, which approves and promotes foreign investment and sets investment priorities, considers Indonesia's top priorities for foreign investment to be in (1) job creating activities, (2) industries yielding exportable commodities, (3) processing of natural resources, and (4) industries with large capital and high-technology requirements. Specifically, these top priorities are in agriculture (development of commercial crop plantations), wood processing, manufacture of machinery and fabricated metal products, petrochemicals, and cement and brick manufacturing. Special incentives are offered for

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1/"The Overseas Private Investment Corporation: Its Role in Development and Trade, " (ID-81-21, Feb. 27, 1981).

investments meeting these priorities and for those located outside the central island of Java."

Indonesia has attractions for foreign investors, including a large, inexpensive, and relatively literate and easily trained labor force. It has several potentially efficient ports and some supporting infrastructure in Java, where most of the surplus labor is located. Although Indonesia has the opportunity given its low labor costs, to expand its component assembly and other labor-intensive manufacturing operations as these industries move from higher cost Asian countries such as Taiwan, Government officials said there was neither an effort underway nor plans to attract these industries to Indonesia.

Although the Government has made positive efforts in improving the investment climate, many obstacles to increased investment remain, including

- a lengthy and expensive approval process for foreign-investment applications,
- Government restrictions and prohibitions controlling investments in certain industries or sectors,
- an ineffective promotional and recruiting program for foreign investors,
- unofficial payments required to effectively conduct business operations, and
- underdeveloped infrastructure.

#### Other factors affecting Indonesian trade development

In addition to serious problems tied directly to its bureaucratic structure which affect trade development, Indonesia faces obstacles in sectors that it wishes to develop for their export potential. Of those American importers responding to the question of favorable/unfavorable factors relating to Indonesian trade in our survey, many cited export taxes, transportation, port facilities, and customs costs and procedures as generally unfavorable for export trade. Other obstacles are discussed in the following sections.

#### Agricultural export policy

According to the U.S. Embassy, the Indonesian Government approach to agricultural exports seems somewhat inconsistent with the goal of maximizing earnings in competition with the desire to control domestic consumer prices. The Government seems inclined toward policies (e.g., export taxes or the withholding of export licenses) which discriminate in favor of domestic consumers. Recent declines in world prices for several export commodities

(coffee, copra, and palm oil) have led to a relaxation of export controls, but the control mechanisms remain in place because officials at the highest level of government reportedly are more interested in protecting domestic industry than in promoting international trade. In 1979, the export of some commodities including coffee, tea, rattan, hides, and vegetable oils were temporarily restricted. Government explanations for the ban ranged from the need to protect domestic supplies and prices, to the need to raise revenue, to the need for these commodities in developing domestic industries. The ban resulted in contract defaults, late shipments, and inconvenience and financial loss for foreign importers.

#### Infrastructure and supporting services

Significant obstacles to improved export development are poor infrastructure including roads, ports, communications and supporting services. International shipping is irregular and freight rates are expensive due, in part, to high demurrage costs and various irregularities. Inter-island shipping is undependable because schedules are directed at the discretion of shipping agents. Warehouse storage is reportedly monopolistic and costly and cargo handling is somewhat careless and indifferent. Indonesian development of fresh and processed fish, fruit, and vegetables--potentially important export products--is very dependent upon good support services, such as storage, transport, and marketing facilities.

#### Fishing industry's export potential

The development of Indonesia's fishing industries is one of the Government's prime economic development goals. Indonesian waters produce an estimated six to seven million tons of fish annually. More than 2,500 varieties of fish have been identified, including tuna, sardines, mackerel, coral fish, sea bream, ornamental fish, shark, ray, and a wide range of crustacea, including shrimp. Less than 20 percent of this standing crop is harvested each year. In 1975, Indonesian fish exports were valued at \$88 million; in 1977, \$163 million; and in 1978, \$198 million. Shrimp accounted for 90 percent of the export value. Less than 60 percent of the annual shrimp catch is exported, however, because 40 percent is rejected due to damage either during harvesting or enroute to processing plants.

The Government approach to development of the fishing industry is an example of its inconsistent approach towards export-trade development. In 1977 and 1978, following increasingly violent confrontations between trawler fishermen and traditional small-craft (either sailed or rowed) fishermen, the Government took steps to severely restrict trawler fishing in Sumatra rather than to encourage, with financial support, traditional fishermen to change to trawler fishing. The Government plans to offer loans to permit indigenous fishermen to motorize their small

boats but in the meantime, according to one well-placed Indonesian businessman, Indonesian shrimp catches have fallen and Taiwanese, Thai, and Filipino trawlers have taken up the slack.

#### Timber processing industry not developed

The timber and wood industry is Indonesia's third largest production sector (after agriculture, oil and liquefied natural gas), employing thousands on over 100-million acres and contributing \$1.5 billion in foreign-exchange earnings. As part of its trade strategy, the Indonesian Government is encouraging the establishment of wood-processing export-oriented industries for plywood and veneer (and import substitution industries for pulp and paper) to both maximize value-added and increase employment opportunities. Countries which import Indonesian timber have habitually processed it within their own borders and then re-exported the value-added finished product.

Under its second development plan, the Government eliminated the tax on processed wood exports and levied a 20-percent tax on raw timber exports, hoping to stimulate investment in processing industries. The Government also banned the export of some logs. Despite these measures, Indonesia has only 17 plywood factories. An Indonesian official said that because Koreans and Japanese were willing to pay the tax to continue wood processing in their own countries, the Government instituted the requirement that timber exporters must sell a percentage of their timber on the domestic Indonesian market, which theoretically, will encourage development of local processing industries.

The Government intends to force foreign and domestic investment in wood processing, but excessive Government fees, duties and royalties have contributed towards high domestic production costs and have served as disincentives to investment. Smuggling is a problem. One foreign official noted that despite Indonesia's ban on log exports, Singapore, which has no domestic timber resources, has 21 plywood factories which continue to operate.

#### Need for improved quality control

The third development plan recognizes the importance of quality control for exports and states that many Indonesian goods do not meet international standards which "causes a lack of trust by foreign importers" and brings lower prices for Indonesian goods, compared to similar goods from other countries. The plan specifically cites the need for quality control to avoid what Indonesia terms the "seizure" of inferior Indonesian goods by FDA.

FDA officials said that Indonesia faces many problems which are common to developing countries, including the following.



- Many exports are produced/processed at cottage-level industries leading to quality control problems.
- Storage facilities are often substandard and transportation conditions are frequently unsanitary.
- Processed food faces problems at the production point.
- Foreign customs often conflict with U.S. labeling requirements. (For example, ginseng may be considered as having medicinal value in a developing country but it cannot be labeled as a drug when it enters the United States.)

FDA officials said that the success of a country's improving its product quality depends upon the importance of the product to the country's economy and concomitant government attention and allocation of resources to the product. When products involve a great deal of money, most governments generally make certain that they meet U.S. standards.

Indonesia has established standards and the Government issues quality certificates for 16 commodities, however, these standards are not all accepted by its trading partners. Standard Indonesian Rubber is accepted worldwide according to Indonesian Government officials although an American business representative told us of rubber shipments which were rejected by American buyers due to poor quality. Indonesia continues to have problems with U.S. standards concerning coffee, spices, and fish.

Problems with Indonesian shrimp exports to the United States have occurred due to salmonella and decomposition. FDA "block-listed" them. FDA recently removed some Indonesian exporters from the block-list who were certified by the Indonesian Government as meeting U.S. import standards. FDA will temporarily monitor shipments from these firms to insure compliance with FDA regulations.

The Government effort to improve standards and quality control is fragmented. Each directorate-general in each department has an agency for standards and/or quality control which devises and enforces its own criteria.

The Directorate of Standardization, Normalization, and Quality Control under the Directorate-General of Foreign Trade is responsible for commodities such as rubber, essential oils, coffee, and plywood. The Department of Industry has an agency for standards and quality control for industrial/manufactured products. According to one Government official, Indonesia eventually intends to consolidate these functions into one organization.

A U.N. official said that the U.N. has been trying for the past 7 years to get the Government to establish one agency with one set of national standards.

The Trade Department Directorate-General for Foreign Trade has established standards and laboratories to ensure quality control for rubber, spices, essential oils, and coffee but, according to directorate officials, Indonesia needs technical assistance and training from foreign countries. For example, one high-level official said Indonesia could use from one to three FDA technical experts to spend at least 1 month in Indonesia visiting factories and providing quality control direction. He also said that the Indonesian Government would be willing to pay the technicians' local costs if the U.S. Government would pay their travel costs.

FDA periodically conducts workshops to which foreign officials/technicians are invited. A workshop on shrimp was held in April 1980 in Los Angeles. The objective was to help foreign firms with quality control through seminars and laboratory training sessions. Indonesia sent representatives from the Departments of Trade and Agriculture.

The West German government provided an expert to the Indonesian Government who is assisting the Government in spice quality control. He visited the United States and analyzed FDA spice regulations as they apply to Indonesia; he is helping the Indonesians meet U.S. standards. The United Kingdom is currently financing some laboratory costs but officials said that assistance by other foreign donors is required. The Directorate of Standardization, Normalization and Quality Control has prepared a training project for foreign assistance which will be included in the Government development projects proposal book for 1981-82.

Need for credit for exports  
and investment for export

Several Indonesian businessmen believe that the biggest problem facing Indonesian export promotion is the lack of credit financing. Not only is it difficult to get loans, but the approval process which can take up to 1 year makes the entire process irrelevant for some perishable commodities. Banks will only give 6-month to 1-year export credits at a total interest rate/bank fee of 13 percent. A Bank Indonesia official said that export financing is available and that to encourage small businessmen to export, the interest rate is 9 percent versus the usual 18 percent for large, established exporters. A U.N. official said that the Indonesian banking system is so overwhelmed with paperwork that getting credit remains a problem and that although the official interest rate may be 12 percent, the actual rate is 20 percent.

Agriculture smallholders cannot get investment credit for long-term planting (e.g., copra takes up to 5 years to grow before it can be harvested and begin producing income). Smallholders

must also pay land/property taxes from the time of planting. An Indonesian businessman said that the Government should offer tax holidays during the period of crop growing to encourage export crop planting.

Indonesian exporters also told us of the difficulty in obtaining credit. One exporter stated that to get financing for business expansion he must provide 30 percent of the investment funds. He claimed that he does not have money to do this. As of April 1979, only about 5 percent of total credit lending by financial institutions was for export financing.

A Bank Indonesia official said that the Government is aware of the financing problem and that discussions were underway between the Bank and the Departments of Finance and Trade (and presumably Agriculture) on how to implement and/or expand credit to small-holders and exporters.

#### Tariffs, customs, and export procedures

The Deputy Director-General of Customs said that the Indonesian tariff structure is designed to generate revenue and protect domestic industries. Revenues increased from \$120 million in 1970 to \$520 million in 1979 and were expected to reach \$640 million in 1980. Although the Department of Finance establishes the tariff levels, the Departments of Trade and Industry make recommendations and have input to decisions.

The Deputy said that the Minister of Finance, who directs Customs, had issued specific orders to Customs to eliminate any bottlenecks which hamper the flow of exports. Procedures have been simplified; only one export document is now required and shipments can be inspected, packed, and sealed at factories and warehouses.

Indonesian officials said they recognize that irregular procedures at shipping points--including the need for unofficial payments as a cost of doing business--are a problem. These officials also said that progress is being made to control them, however, and they are less of a problem than in the past.

Although the Government has eliminated some export disincentives (certain export taxes and stamp duties), few export incentives exist, such as export rebates as a percentage of taxes paid or export insurance for all risks.

Under the Government duty drawback (rebate) system, certain commodity components are issued an export certificate at the time of import, granting a 20- to 40-percent reduction in the import duty; the components must be exported in a finished/semi-finished product. Other items may be imported, processed with value added, and a drawback may be issued upon application when exported. However, one exporter told us that he had been waiting for over a year to receive his drawback. Delays of several years are reportedly not uncommon.

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All exporters as well as importers must be licensed by the Government. This procedure is intended to cut down on smuggling and is an attempt, according to Government officials, to encourage exporters to develop overseas markets and to insure good quality exports. Ethnic Indonesians are given preference in the issuance of licenses.

TRADE ASSISTANCE TO DEVELOPING COUNTRIES

This Appendix describes in greater detail selected trade assistance mechanisms which the United States and other selected developed countries use in assisting developing-country trade and development. These mechanisms are

- the International Trade Center;
- the special U.N. project for providing the developing countries with a better understanding of the various donor GSP schemes;
- the trade assistance activities provided through various U.S. agencies and direct trade promotion assistance activities provided through trade promotion offices/centers in some developed countries;
- trade promotion assistance activities provided by the Commission of the EEC; and
- trade assistance and aid activities provided for 60 African, Caribbean, and Pacific States by the EEC in a special aid and trade arrangement called the Lome Convention.

In reviewing how developed countries assist developing-country trade, we focused on identifying U.S. and other Organization of Economic Cooperation and Development (OECD) member-country trade assistance techniques.

During the course of this review, we interviewed U.S. officials who had responsibility for and/or knowledge on trade assistance being provided to developing countries by the United States and other OECD members: from the Departments of State, Commerce, the Treasury and Agriculture; the International Development Cooperation Agency, Agency for International Development; Food and Drug Administration, and U.S. Trade Representative. We interviewed the commercial attaches and/or foreign trade representatives of the United Kingdom, Germany, France, Japan, Costa Rica, India, Kenya, and Mexico; and spoke with officials from Canada, Sweden, and the Netherlands. We also met with officials of the U.S. Chamber of Commerce, World Bank, International Monetary Fund, Inter-American Development Bank, and the EEC delegation to the United States.

We spent 6 weeks interviewing U.S. and/or foreign officials of the OECD Secretariate in Paris; the General Agreement on Tariffs and Trade (GATT), the United Nations Conference on Trade and Development (UNCTAD), and International Trade Center in Geneva; the EEC Commission in Brussels; the Netherlands' Center for the

Promotion of Imports from Developing Countries in Rotterdam; and the United Kingdom's Trade Agency for Developing Countries in London.

We reviewed U.S. Government data and files; multilateral and international (World Bank, United Nations, EEC, and OECD) and private sector publications; and reports/documents provided by the foreign governments. We relied heavily on information and data provided by foreign government officials. The results of the oral interviews and reviews of the records were combined in what we judge to be an accurate narrative summary description of the trade assistance being provided by the United States and other selected OECD countries.

#### U.N.-SUPPORTED TRADE ASSISTANCE ACTIVITIES

The United Nations is providing trade assistance to developing countries principally through two mechanisms: (1) the International Trade Center, a joint subsidiary organization of the GATT and the United Nations, and (2) a special Generalized Systems of Preferences (GSP) training/information project, established by UNCTAD and UNDP. Both headquartered in Geneva, the International Trade Center, for over 15 years, has provided a wide array of trade assistance activities for developing countries; the UNCTAD/UNDP GSP special project, established in 1977, disseminates information to, and provides training for, developing countries to increase their understanding and use of the various GSP schemes. These GSP schemes are intended to assist developing countries in increasing their exports and industrial development through tariff preferences.

#### THE INTERNATIONAL TRADE CENTER

The International Trade Center was established in 1964, the same year that UNCTAD was created, as part of the GATT program for expanding international trade of developing countries. In 1968, UNCTAD joined GATT as co-sponsor of the International Trade Center. Because of its specialization in the trade promotion and export marketing aspects of economic development, the Center was designated in August 1973, through a U.N. resolution, the principal organization for providing all U.N. assistance in trade promotion. A year later, the Center's legal status as a joint subsidiary organization of GATT and the United Nations--the latter acting through UNCTAD--was recognized by the contracting parties to GATT and by the U.N. General Assembly.

The International Trade Center's secretariat is located in Geneva which is the European headquarters of the United Nations. The secretariat is headed by a Director, who is assisted by a Deputy Director. The headquarters staff totals over 200. In addition, the Center usually has more than 200 experts or consultants working within its technical cooperation projects at any time. Over the last decade and a half the Center's technical assistance activities have spread throughout the developing world.

The Center's work program and policy guidelines are determined by the Council of GATT and the Trade and Development Board of UNCTAD, based on recommendations of the annual "Joint Advisory Group on the International Trade Centre UNCTAD/GATT", and its Technical Committee, an intergovernmental group of experts on trade promotion. Member states of GATT and UNCTAD are eligible to participate in these bodies and they constitute the de facto membership of the Center.

#### Funding of International Trade Center activities

GATT and UNCTAD contribute equally to the Center's regular budget and support costs; in addition, funds for field activities are financed from special funds donated by the governments of various developed countries, international organizations, multilateral institutions, UNDP, and in a few cases by governments and regional organizations of developing countries. Table 1 below shows the Center's total expenditures and donor sources for calendar years 1975 through 1979 and Table 2 shows a further breakdown of donor contributions for the Center's field activities for calendar years 1978 and 1979.

TABLE 1

#### CENTER'S TOTAL EXPENDITURES AND DONOR SOURCES FOR CALENDAR YEARS 1975 to 1979

| Year | Total<br>expenditures | Donors: GATT/UNCTAD  |                  | Field activities b/ |           |
|------|-----------------------|----------------------|------------------|---------------------|-----------|
|      |                       | Regular<br>budget a/ | Support<br>costs | Other<br>donors     | UNDP      |
| 1975 | 12,083,283            | 4,179,623            | 865,652          | 4,788,008           | 2,250,000 |
| 1976 | 14,252,722            | 4,951,077            | 941,645          | 6,243,000           | 2,117,000 |
| 1977 | 16,166,987            | 5,500,451            | 1,223,454        | 7,892,573           | 1,550,509 |
| 1978 | 20,147,221            | 7,543,108            | 1,498,612        | 9,237,378           | 1,868,123 |
| 1979 | 23,869,425            | 8,673,425            | 1,523,012        | 10,318,135          | 3,354,853 |

a/Adjusted yearly to take account of increases arising from changes in costs, prices and exchange rates.

b/See Table 2.

Source: International Trade Center

As shown by Table 2 below, special funds donated by the governments of various developed countries and by governments and regional organizations of developing countries and other international organizations, financed about \$10.3 million or about 75 percent, of the International Trade Center's 1979 technical assistance field activities; UNDP financed about \$3.3 million or about 25 percent.

As shown in Table 2, the United States was the smallest bilateral donor in 1979--.03 percent of total donor and UNDP

contributions. The largest donors were Sweden, 34.8 percent; Norway, 10.97 percent; the Netherlands, 9.94 percent; and Germany, 4.68 percent.

TABLE 2

DONOR CONTRIBUTIONS FOR THE CENTER'S FIELD  
ACTIVITIES, CALENDAR YEARS 1978 and 1979

|   | See Table 1, totals for field activities |         | 1978       |         |
|---|--|---------|------------|---------|
|   | 1979                                     |         | 1978       |         |
|   | \$ U.S.                                  | Percent | \$ U.S.    | Percent |
| Austria   | 63,080                                   | 0.46    | 52,901     | 0.48    |
| Belgium   | 448,237                                  | 3.28    | 198,413    | 1.79    |
| Canada  | 327,451                                  | 2.39    | 510,754    | 4.60    |
| Cuba  | 6,109                                    | 0.04    | 32,348     | 0.29    |
| Denmark   | 486,388                                  | 3.56    | 377,233    | 3.40    |
| Finland   | 176,135                                  | 1.29    | 188,214    | 1.69    |
| Germany, Fed. Republic <u>a/</u>  | 639,929                                  | 4.68    | 280,820    | 2.53    |
| India   | 25,405                                   | 0.19    | -          | -       |
| Indonesia <u>b/</u>   | 18,194                                   | 0.13    | 15,428     | 0.14    |
| Ireland <u>c/</u>   | 20,298                                   | 0.15    | 11,915     | 0.11    |
| Japan   | 92,233                                   | 0.67    | 29,359     | 0.26    |
| Netherlands   | 1,359,056                                | 9.94    | 1,352,642  | 12.18   |
| Norway  | 1,499,838                                | 10.97   | 1,694,249  | 15.26   |
| Sweden  | 4,758,070                                | 34.80   | 4,391,328  | 39.45   |
| Switzerland   | 152,461                                  | 1.12    | 56,740     | 0.51    |
| United States of America  | 3,834                                    | 0.03    | 16,503     | 0.15    |
| Economic Community of<br>West African States                            | 96,184                                   | 0.70    | 2,525      | 0.02    |
| West African Economic<br>Community                                      | 53,368                                   | 0.39    | -          | -       |
| Commission of the European<br>Communities                               | 6,351                                    | 0.05    | 12,863     | 0.12    |
| Sub-allocations from United<br>Nations organizations other<br>than UNDP | 85,514                                   | 0.63    | 13,143     | 0.12    |
| total   | 10,318,135                               | 75.46   | 9,237,378  | 83.10   |
| UNDP  | 3,354,853                                | 24.54   | 1,868,123  | 16.90   |
| Total   | 13,672,988                               | 100.0   | 11,105,501 | 100.00  |

a/Including contributions made through United Nations Economic Commissions for Africa and for Asia and the Pacific.

b/Counterpart cash contribution.

c/Excluding provision of expertise.

Source: International Trade Center



INTERNATIONAL TRADE CENTER  
ASSISTANCE ACTIVITIES FOR DEVELOPING COUNTRIES

Initial Center activities were confined mainly to collecting and disseminating market information and conducting market research. By the end of the 1960s, the Center was providing a few technical assistance activities, such as training and trade promotion advisory services. During the 1970s, the Center's technical cooperation activities developed into a broad-based global program, providing a wide range of services related to trade promotion. The value of its activities increased from about \$2.7 million in 1972 to about \$11.0 million in 1978. A significant part of this financing, about 80 percent, was through direct donor contributions.

Over the years, it became obvious that the Center needed to plan its work program for longer than 1-year periods to make optimal use of its resources. Accordingly in 1979, the Center began implementing 3-year work plans.

In 1979, the Center's technical cooperation program, valued at over \$13 million, was distributed according to the following subprograms.

| <u>Subprogram</u>  | <u>Percent</u> |
|--|----------------|
| Export market development  | 42.5           |
| Training development   | 22.3           |
| Strengthening national infrastructure                                    | 16.2           |
| Specialized national trade promotion services                            | 10.5           |
| Multinational trade promotion  | 3.4            |
| Special technical cooperation program with the least developed countries | 2.8            |
| Import operations and techniques   | 1.3            |
| Technical cooperation with national chambers of commerce                 | 0.6            |
| Trade promotion oriented to rural development                            | 0.4            |

Three new subprograms, shown above, were started in 1979:

(1) special program for the least developed countries, (2) trade promotion oriented to rural development, and (3) technical cooperation with national chambers of commerce. Total program resources for the above subprograms are estimated at \$17.1 million for 1980 and \$19.4 million in 1981.

Most subprograms are brought together under integrated assistance projects which continue to be the single most important mode of Center assistance and account for 48.6 percent--approximately \$6.5 million of its activities. Integrated assistance projects focus on strengthening developing countries' institutional infrastructure and trade promotion policy framework, while providing assistance in other areas such as export potential surveys, export market development, specialized export services, training, and import procurement.

## APPENDIX II

## APPENDIX II

Of the 38 integrated assistance projects implemented in 1979, 4 projects were regional and were carried out in cooperation with the Economic and Social Commission for Asia and the Pacific, the Caribbean Development Bank, the Andean Group and the West African Economic Community. The remaining 34 projects were national projects for the following countries.

| <u>Africa</u> | <u>Latin America</u> | <u>Asia and the Pacific</u> | <u>Europe, the Mediterranean and the Middle East</u> |
|---------------|----------------------|-----------------------------|--|
| Ghana         | Dominican Republic   | Afghanistan                 | Egypt  |
| Kenya         | El Salvador          | Bangladesh                  | Greece   |
| Lesotho       | Panama               | India                       | Portugal   |
| Malawi        | Uruguay              | Indonesia                   | Romania  |
| Mali          |                      | Malaysia                    | Sudan  |
| Niger         |                      | Nepal                       | Tunisia  |
| Nigeria       |                      | Pakistan                    | Turkey   |
| Senegal       |                      | Philippines                 |  |
| Sierra Leone  |                      | Sri Lanka                   |  |
| Somalia       |                      | Thailand                    |  |
| Tanzania      |                      |                             |  |
| Zaire         |                      |                             |  |
| Zambia        |                      |                             |  |

Examples of the International Trade Center's assistance activities under two of its major subprograms--export market development and training development--are highlighted below.

#### Export market development subprogram

These activities accounted for 42.5 percent of the Center's program resources. This subprogram includes market research and studies; greater use of GSP; and market advisory activities.

#### Market research and studies

Generally, Center market research and studies

- provide quantitative and qualitative data on past trends in developed-country markets for developing-country products;
- isolate factors determining these trends and attempt to forecast future prospects;
- describe the potential market share for producing developing countries; and/or
- suggest means of promoting exports and of adjusting product potential market conditions.

These activities included such product areas as horticultural products and spices; agro-based products, including bananas; bee products; and dehydrated vegetables. Market studies also include

frogs' legs, snails, meat, and grain for the Sahelian countries. Regional market development activities dealing with manufactured products included a pilot study on selected sugar derivatives, and market surveys on pulp, paper, paper board, machinery, spare parts for the sugar industry, and a major survey on hand-tools. The products on which research was undertaken were selected from lists submitted by developing countries, endorsed at sessions of the Joint Advisory Group or in cooperative projects with other international organizations. Center activities in this area also include followup to previous research, i.e., a follow-up study and presentation seminar on gelatin for Indonesia. In addition, a market news service on horticultural products implemented in Kenya was extended to Senegal in 1979.

#### Generalized Systems of Preferences

This International Trade Center two-phased project is to assist developing countries to take greater advantage of the developed countries' Generalized Systems of Preferences (GSP). The project's phase I report, containing short market analyses on 15 products and their export prospects in the EEC, Hungary, Japan, and the United States, was distributed among the beneficiary developing countries.

Five individual marketing assistance programs under phase II commenced in 1980, financed through donor contributions, for an equal number of preference-receiving countries. The project is financed through donor funds totaling about \$300,000 from UNDP, EEC, Germany, Norway, the Netherlands, Switzerland, and the United States. The Agency for International Development (AID) has granted \$50,000 to the project. The countries and products selected for phase II follow.

| <u>Beneficiary<br/>country</u> | <u>Product<br/>category</u> | <u>Developed-country<br/>market</u> |
|--------------------------------|-----------------------------|-------------------------------------|
| Bangladesh                     | Crustaceans                 | Federal Republic of Germany         |
| Uruguay                        | Parts of footwear           | Hungary                             |
| Madagascar                     | Basketware                  | Japan                               |
| Ecuador                        | Canned fish                 | Denmark                             |
| Philippines                    | Furniture                   | United States                       |

Under phase II, representatives from the trade sector in the developing country will gain first-hand knowledge of the market for their products through visiting the market and making direct contact with agents, importers, manufacturers, and trade associations. A seminar will follow in the developing country to disseminate the knowledge gained through the marketing tour. Developing country interest in this project has been shown by their requests for information. By the end of 1979, 24 developing countries had requested that they participate in the project or had indicated some interest.

Market advisory activities

These International Trade Center activities deal with the collection, analysis, and dissemination of a wide array of trade information for developing countries. The Center "International Trade Forum" magazine, published quarterly in English, French, and Spanish, focuses attention to export market opportunities, makes export marketing and trade promotion techniques better known, and draws attention to organizations which can assist in export promotion. The magazine is free to all official bodies and to private individuals and organizations in developing countries. In addition, 22 monographs on trade channels were produced during 1979, financed by donor contributions. Each monograph covers a given developing-country product group in a given market. Besides describing distribution channels and identifying potential importers for the products selected, these monographs provide information on trade fairs, trade associations, and other organizations concerned with trade in the product. Lists of traders and addresses (agents, importers, buyers, major users, etc.) are provided with recommendations designed to help exporters in developing countries penetrate the markets in question or to expand their business contacts.

In 1979 over 1,000 trade institutions and businessmen in developing countries received market information from the International Trade Center in response to specific requests. Nearly 116,000 copies of Center publications were sent to exporters and trade officials in developing countries. Eighty organizations in 50 developing countries regularly receive trade statistical analyses in microfiche from the Center. Additional programs, containing trade analysis tables for 36 major country markets, analyses of the export performance of developing countries and of international competitive conditions, were also disseminated in microfiche and printed forms to many developing countries. Computerization of the Center's mailing system and importers' lists in industrialized and developing countries interested in purchasing from developing countries was initiated in 1979. In addition, several supply surveys were completed under the Import-Export Contact Program in 1979, i.e., in Malaysia, company profiles for some 1,200 manufacturers/exporters of various consumer products were established through the supply survey.

Training subprogram

This is the second major international Trade Center subprogram in terms of the resources used. Training activities provided in the field and at headquarters, on an interregional, regional, and country basis, accounted for 22.3 percent of the Center's resources. Most training was offered through regional and country projects in the developing countries. In 1979, 726 trainees attended 35 events organized interregionally, associated with institutions and import opportunities offices in developed countries. In addition, 1,616 trainees attended 71 individual country events held in developing countries; and, 1,158 trainees received instruction in 34 regional or subregional events, as

well as 193 developing-country officials and business executives, mainly from Asia and the Pacific region. Eighteen seminars and workshops for trade representatives from developing countries stationed in Europe, Canada, and India constituted the most important part of the interregional activities. Training includes such areas as export of processed agricultural products; export financing, costing and pricing; export packaging and trade fair participation.

COMMENTS ON INTERNATIONAL  
TRADE CENTER ACTIVITIES

Although we did not attempt to verify the effectiveness of Center trade assistance activities, views expressed by officials with whom we spoke and in documents show, overall, favorable comments on the Center's assistance to developing countries.

For example, an Indonesian trade official said that the International Trade Center has provided valuable assistance. The Center also helped Indonesia establish its National Agency for Export Development. A Malaysian trade official stated that the Center has provided experts to do needed studies on improving Malaysian export practices. The Brandt Commission report, "North-South: A Program for Survival," states that the International Trade Center gives valuable assistance to developing countries in marketing. Other officials with whom we spoke, including those of Sweden, Germany, the United Kingdom, Canada, Columbia, France, the International Labor Organization, and the International Chamber of Commerce, also said that the Center is providing useful trade assistance to developing countries.

The Trade and Development Board of UNCTAD at its September 1980 session in Geneva also requested that UNCTAD and the Center continue and increase their technical assistance programs towards the special needs of developing countries. According to a U.S. official knowledgeable of Center activities, the Center is a visible, competent organization well thought of by developing-country and developed-country officials alike; it has the support of the developing countries and has good effects. In view of this, the official believes that the Center is making valuable contributions to developing country trade promotion. Further, a recent comprehensive consultant's evaluation of the Center's training development program concluded, in part, that the International Trade Center

- has made a significant contribution toward the improvement of manpower development in trade promotion and international marketing in the third world by creating new concepts of training, carrying out training activities, providing training material, and by helping in setting up and/or strengthening training institutions; and
- during the last 10 years, has developed a vast assortment of different training activities, both

for basic and advanced training, for training techniques, and for functional training.

U.S. INVOLVEMENT IN INTERNATIONAL  
TRADE CENTER ACTIVITIES

According to U.S. officials at IDCA and the Departments of State and Commerce, and AID, the United States has shown limited interest in and direct support for International Trade Center assistance activities because such support is perceived as a low priority development mechanism not fitting directly with basic human needs objectives and not serving domestic political considerations.

The State Department has lead responsibility for the Center and attends the Center's annual Joint Advisory Group meetings. Commerce officials from Washington and AID officials in Geneva attend the Center's annual Technical Committee meetings. However, AID and IDCA officials told us that, generally, there is no AID policy regarding trade or the International Trade Center.

Regarding monetary support to the Center, the official State Department position is that it is a valuable organization but should draw more support from UNDP. Some officials at State, IDCA, AID, and Commerce, however, believe that the Center should be given more support because (1) the United States and developing countries both benefit from trade and (2) such support offers political benefits. The United States, through AID, is providing limited trade assistance through the Center with a small grant to a GSP project. (See p. 58.)

A U.S. official knowledgeable about Center activities and U.S. decisionmaking channels has said that because funds for field activities are used according to the donor's prerogatives, greater U.S. support can be targeted to those activities which are compatible with basic human needs, domestic interests, and those which could complement U.S. development assistance efforts.

According to the official, working more closely with the International Trade Center would be in the United States' own interest. Center trade assistance activities help developing countries stimulate their economies through trade so they can help pay for their own development. Washington officials in the State Department agree with this view, but funding is expected from AID. AID/Washington officials also agree with this view but believe congressional committees are not interested and/or would deny requests for trade assistance. Support for such assistance, therefore, is not requested. Other top officials in the Commerce and State Departments believe that the Center, in principle, would be advantageous for closer cooperation with the United States.

According to a U.S. official, one possible area for project cooperation between the United States and the Center is assistance to the least-developed countries. Exports from these countries are least likely to hurt U.S. producers, and ongoing AID

programs in these countries could potentially use Center resources to help carry out projects which have trade promotion potential. The following reasons were cited for increased U.S. International Trade Center collaboration.

- Exports, among other factors, are directly linked to economic development in these countries and economic theory supports exports as an engine of growth in the first stage of development.
- The U.S. commitment to trade promotion complements U.S. support to the common fund which, in turn, supports production and exports of primary commodities.
- Trade promotion activities can be compatible with the U.S. Government basic human needs strategy. The success of middle income countries is attributed in part to expanding exports. To the extent that International Trade Center activities emphasize technical assistance to least-developed countries and to rural-oriented product production for export, they dovetail with the U.S. priorities.
- The concept of trade promotion has been supported at high levels within the U.S. Government. The former Under Secretary of State has said that for most of the developing countries, trade rather than official assistance is the chief source of foreign exchange and the primary external engine of economic progress.

#### UNITED NATIONS GENERALIZED SYSTEM OF PREFERENCES SPECIAL TRAINING PROJECT

Nineteen member countries of the OECD have Generalized Systems of Preferences (GSP). The GSP schemes, through unilateral tariff preferences, are designed to help developing countries increase their exports, diversify their economies and lessen their dependence on foreign aid. Lack of awareness and information on the various GSP schemes in the developing countries, among other factors, means loss of GSP benefits. UNCTAD and UNDP established a special project office in Geneva in 1977 to disseminate information on U.S. and other donor GSP schemes, to increase beneficiary understanding and use of GSP.

#### LIMITED USE AND UNDERSTANDING OF GSP TRADE BENEFITS

The GSP schemes were created in response to resolutions of the Second UNCTAD Conference in 1968, whose objectives were to increase developing country export earnings, and industrial development. In 1971, EEC took the lead among developed countries by bringing a GSP scheme for developing countries into operation. Other GSP schemes followed with Japan and Norway in 1971; Finland,

Sweden, Switzerland, New Zealand, and Austria in 1972; 1/ Australia and Canada in 1974; and the United States in 1976.

Developing country trade that receives GSP benefits is small. In 1976, \$26 billion in developing countries' trade was covered by the 11 OECD schemes; however, only 40 percent of the GSP-covered imports (\$10.5 billion) actually received preferential treatment. This compares to a total of \$157.9 billion of OECD-member country imports from developing countries for 1976. Total OECD-GSP imports from developing countries in 1978 reached \$15.1 billion, but additional imports valued at \$18.3 billion could have received GSP benefits but did not. According to an OECD report, in many cases developing countries could have received preferential treatment if GSP had been properly requested; moreover, the ratio of GSP use to GSP products' coverage has stagnated for the last few years. In 1978, 45.2 percent of the preferential possibilities available under GSP were used, compared to 43.5 percent 2 years earlier.

Reasons cited for low GSP use include lack of developing country resources to properly apply for GSP benefits; shortcomings in the economic and commercial capacity in developing countries; limited GSP product coverage; varying interpretations of GSP technical provisions; and a lack of awareness and information on the various GSP schemes within the developing countries. Our report 2/ on the U.S. GSP scheme also found a variety of reasons for developing country products failing to receive GSP preferences, including the inability of beneficiaries to effectively and efficiently fulfill GSP requirements. GSP places specific demands on beneficiary governments and exporters which sometimes exceed their ability to respond effectively.

According to the Assistant United States Trade Representative, many developing countries have been unfamiliar with the U.S. GSP scheme. Use of GSP schemes depends on awareness of them by developing country exporters and Government officials. For example, Malaysia has stated that its exports under GSP increased from \$113 million in 1973 to \$1,930 million in 1978, due partially to an increased awareness of the GSP schemes. Favorable demand for Malaysia's GSP products coupled with the improved use of GSP by Malaysian exporters were largely responsible for its continued growth in exports under GSP in 1978 (as evident from increased certificates of origin from exporters requesting GSP). However, a Malaysian official said that many small businessmen and companies just beginning to export do not understand GSP. The Malaysian Ministry of Trade, with cooperation of officials from GATT and UNCTAD, has conducted several training seminars on GSP for the private sector.

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1/Denmark, Ireland, and the United Kingdom implemented GSP programs in 1972 but since 1974 have been participating in the EEC program as a result of their joining EEC.

2/"Trade Preference Program Decisions Could Be More Fully Explained," (ID-81-10, Nov. 6, 1980).



UNITED NATIONS UNCTAD/UNDP GSP  
SPECIAL PROJECT OFFICE IS PROMOTING  
GREATER USE AND UNDERSTANDING OF GSP

In view of the problems the developing countries are having in taking advantage of GSP benefits, UNCTAD and UNDP established a special project office in April 1977 to promote the expansion and diversification of exports from developing countries through optimum use of the various GSP schemes. UNDP finances the project with about \$200,000 annually. In addition, significant donor-country contributions, which are highlighted below, complement the UNDP funding for the project's GSP training missions to the developing countries.

The United States and some other developed countries have provided direct support to the project. The United States, Austria, Canada, the Commission of the European Communities, Finland, the Federal Republic of Germany, Japan, Norway, Sweden, Switzerland, and the United Kingdom, have provided and paid for GSP experts for training seminars. In addition, the U.K. Commonwealth Secretariat, the Commission of the European Communities, and Switzerland have financed regional and inter-regional GSP seminars. The Federal Republic of Germany and Japan have also provided and funded a fulltime GSP expert to the project. Further, the costs of GSP handbooks, which are written by the project office and explain the individual GSP schemes, are funded by the U.N. publication budget. The GSP special project office's major activities include publishing GSP handbooks and conducting advisory missions to, and training seminars in, developing countries, which are highlighted below.

GSP handbooks

The GSP special project office has prepared and published easy-to-understand handbooks on various GSP schemes. The handbooks, published in English, French, and Spanish, are distributed through the UNDP Resident Representatives in the developing countries. The GSP handbooks provide those interested in the operation of the GSP with information in a consolidated, concise form using easy-to-understand language regarding the tariff advantages available to developing countries under the various schemes. According to the project director, the handbooks are important and necessary because GSP regulations, legislation, and requirements are often impossible for developing-country officials and exporters to understand. An official of the U.S. Trade Representative's Office in Geneva recognized the difficulty in understanding U.S. GSP regulations without knowledgeable assistance. As such, the handbooks are intended to be generally valuable for exporters and manufacturers in the beneficiary countries, as well as participants in the training seminars.

Advisory missions/training seminars

From May 1977 to December 1979, the GSP special project office conducted 42 GSP short-term advisory missions in 36 countries providing information and assistance to more than 2,000

developing-country exporters, manufacturers, and Government officials. Additionally, the project office organized and conducted 6 regional and interregional GSP seminars involving about 140 developing-country officials in charge of GSP administration in their countries. The seminars covered countries in Africa, Latin America, and Asia.

Advisory missions usually are composed of the GSP special project director, GSP experts from the preference-giving countries, officials from preference-receiving countries and where possible, staff from the UNCTAD Manufactures Division. The participation of GSP expert officials from preference-giving countries has proved valuable in these missions because developing-country exporters can deal directly with them on specific issues. The participation is also viewed as part of the bilateral technical assistance of preference-giving countries to the beneficiary countries.

The seminars and advisory missions of the GSP special project are intended to assist developing countries in better using and understanding the GSP schemes. Frequently, however, many participants attending training sessions were not even aware of the existence of GSP schemes as the following examples illustrate.

- The Solomon Islands export wood, fish products, copra, palm oil, vegetable oil and cocoa, in addition to handicraft goods, to the United States, Australia, and New Zealand. As pointed out in the regional GSP seminar in March 1980 for South Pacific Island countries, the Solomon Islands have drawn few benefits from GSP not only because of the structure of exports but also because of the lack of information on the GSP schemes.
- Tokelau, another South Pacific Island country and an exporter of handicraft goods, noted that GSP technical assistance is required to assure fuller use of GSP, particularly in the correct use of GSP forms. For example, the U.S. Customs Service has had to request follow-up documentation that was not included in Tokelau's attempted GSP use.
- Niger participants at the project's inter-regional GSP seminar for least-developed and middle-income developing countries, also said they were not aware of tariff preferences granted by GSP schemes.
- Guinea, at the same seminar, reported that most of its exporters are unaware of GSP.
- Gambia claimed that knowledge of the GSP is still scant and in Mali, GSP is practically unknown to producers and exporters.

--Botswana, which benefitted from the EEC scheme noted that it lacks information on different GSP schemes such as those of the United States, Japan, and Canada.

Participants of the middle-income and least-developed country seminar in Vienna in July 1979 were unanimous in saying that up-to-date information on the various GSP schemes was lacking. Participants of the seminar included Pakistan, the Philippines, Peru, Haiti, Colombia and the Dominican Republic. Numerous other developing and developed-country officials, including representatives of EEC, the U.S. State Department, and the U.S. Trade Representative's Office, have cited the need for the project's information and training activities.

#### U.S. SUPPORT TO THE GSP SPECIAL PROJECT

Developing countries continue to request training assistance in order to gain the benefits of GSP. U.S. expert participation at seminars and advisory missions of the UNCTAD/UNDP GSP special project is always requested according to the project director, but U.S. GSP experts have not participated in seminars/missions to the extent requested. The reason cited to the project director for lack of U.S. participation was lack of funds. According to one State Department official, only a single U.S. participant is all that is required and the UNCTAD/UNDP GSP special project training activities are the most cost effective for the funds spent.

State Department and U.S. Trade Representative (USTR) officials told us that U.S. participation in the UNCTAD/UNDP special project GSP training seminars depends on stafftime and funding availability but there are no consistent funding mechanisms for U.S. participation in the project's activities. Because there is no specific budget for U.S. participation in the project, funding is difficult to obtain. A State official, who considers the project cost effective, stated he spends as much time trying to obtain funding for the GSP training seminars as he does participating in them. Funding for U.S. participation in the project's seminars comes from the USTR, the State Department Economic and Business Affairs Bureau, and, occasionally from its International Organization Affairs Bureau. Staff for the project's GSP training workshops have come from the State Department Economic and Business Affairs Bureau and USTR. USTR has responsibility for administering the U.S. GSP scheme, and is primarily responsible for GSP training assistance. The USTR staff has participated in past seminars but the GSP project's requests for U.S. GSP experts go initially to the State Department. According to one State Department official, although there is no real substitute for a U.S. GSP expert's presence at GSP project seminars, a highly successful alternative was the use of a video tape that presented the U.S. GSP scheme in Santiago. He believed that the video tape on the U.S. GSP scheme could be useful in all GSP seminars and training missions.

The United States is now considering a full-time U.S. official for the GSP special project in Geneva based on a request from UNCTAD. One State Department official who has participated in GSP training seminars believes it would be advantageous to have a full-time U.S. official at the project since U.S. participation at all GSP seminars would be assured while traveling costs are picked up by the project. A decision on this matter will be jointly made by USTR, State, and Commerce Departments. At present, there is no available State Department or USTR position for the GSP project and a new staff position cannot be created. The Commerce Department is now exploring the feasibility of assigning a staff person to the project.

OTHER TRADE ASSISTANCE PROVIDED  
BY DEVELOPED COUNTRIES

Developed countries offer and participate in providing trade assistance, direct and indirect, to the developing countries through a number of mechanisms--some of which were discussed above. One form of assistance, offered by some developed countries, and desired by the developing world is trade promotion technical assistance. Such assistance encompasses

- organizing and assisting in trade fairs and exhibitions;
- assisting trade missions;
- providing trade information in such areas as GSP, import and excise duties, taxes, food and drug regulations, distribution channels, transport, storage, insurance and packing;
- conducting marketing seminars in such areas as product adaptation, consumer needs and potential importers; and
- helping developing countries establish export promotion offices and/or business contacts in the developed country.

The United States and other countries like the Netherlands, United Kingdom, Sweden, France, Germany, Japan, Canada, Norway, Denmark, and others offer and provide various forms of trade assistance to the developing world, but to varying degrees.

Trade assistance activities provided by some developed countries are, in some cases, organized, coordinated and provided through central reference points such as trade promotion offices or centers in the developed country. These centers and offices not only provide trade assistance to the developing countries, but also offer potential trade benefits to the developed countries. For example, while providing assistance: developed country importers, agents and distributors are made

aware of developing country exportable items; importers and manufacturers in developing countries are linked with developed country companies who can provide goods and services; and, developed country manufacturers are assisted in finding new supply sources together with favorable investment opportunities.

The following sections describe in some detail the trade promotion/technical assistance activities of the United States and other selected developed countries and the EEC.

#### U.S. TRADE ASSISTANCE

As highlighted in the sections which follow, we found that the United States is providing trade assistance through various bilateral and multilateral activities.

The U.S. bilateral aid program is committed to the goal of assisting essential basic human needs in developing countries through support for basic agriculture, health, education, and population planning. Developing country exports, however, are also one of the increasingly important means toward encouraging economic growth that will improve the living conditions of the poor in a meaningful and sustained fashion.

According to our discussions with many U.S. officials, the following agencies and departments are providing trade assistance: AID, USTR, State, Commerce, and FDA. Also, two U.S. programs facilitate U.S. private investment in development: the Trade and Development Program (TDP), <sup>1/</sup> and the Overseas Private Investment Corporation (OPIC). <sup>1/</sup> Although both help American industry compete with government-backed investors and exporters from Europe and Japan, they also provide technical services and training which are intended to contribute to development in developing countries. These two programs could also lead to increased developing country exports.

Trade assistance activities provided by various U.S. agencies are highlighted below.

- AID: AID has been providing, since 1973, grants to the World Trade Institute in New York for various activities that assist developing countries' trade development. The Institute's trade activities include technical assistance in marketing, product development, investment promotion, and responding to specific developing country requests. The Institute also provides trade training in New York and in developing countries, including special training

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<sup>1/</sup>As part of our review efforts on trade and development issues, we recently reviewed these two programs: "Increased Management Action Needed to Help TDP Meet Its Objectives" (ID-81-20, Jan. 6, 1981) and "The Overseas Private Investment Corporation: Its Role in Development and Trade" (ID-81-21, Feb. 27, 1981).

in port management. Since 1973, AID has provided annual grants which total about \$3 million through fiscal year 1981. Past AID funding, however, has been uncertain, and continued AID assistance is in doubt, due to the lack of emphasis on trade and development at policy-making levels.

AID's Bureau for Program and Policy Coordination has funded the Institute in the past and is funding the Institute in fiscal year 1981; however, fiscal year 1982 and subsequent years' funding is uncertain. AID is also providing limited support to the International Trade Center in Geneva for developing country trade assistance activities. (See p. 58.)

- USTR: USTR has no special programs for developing countries besides the recently concluded Multilateral Trade Negotiations, Tokyo Round, and the U.S. Generalized System of Preferences. The USTR did recently establish a GSP information center to assist both domestic and foreign parties in obtaining data and other information on the U.S. GSP program. USTR also held bilateral U.S. GSP seminars in Ecuador in 1980; in 1981, USTR and the State Department held bilateral U.S. GSP seminars in Bangkok, Kuala Lumpur, Manila, Singapore and Jakarta.
- Department of State: The State Department, through its Embassies in beneficiary countries disseminates various GSP information to developing countries. For example, the State Department's Bureau of Economic and Business Affairs distributed to U.S. posts in the U.S. GSP beneficiary developing countries on February 18, 1981, a revised information booklet on the U.S. GSP. Extra funding is needed for German and French editions of the handbook. In addition to the GSP handbook, State and U.S. Customs held a bilateral U.S. GSP seminar in Venezuela during 1980.
- The Commerce Department: The Office of Export Marketing Assistance (OEMA) of the International Trade Administration, U.S. Department of Commerce, is the official U.S. Government representative to the Technical Group on Trade Promotion in support of the International Trade Center. OEMA, upon written request, has provided assistance to the International Trade Center in four of its export promotion activities organized on behalf of less-developed countries: (1) market research tours, (2) marketing information for a particular commodity, (3) trade information systems research projects, and (4) specified training programs.

This assistance is provided by arranging (1) appointments, briefings, and interviews with officials of U.S. Government agencies and private firms, (2) other scheduled events, and (3) particular training programs through contact with appropriate U.S. Government agencies. In the past, OEMA has responded to individual requests from the

International Trade Center for assistance, predominantly involving those countries considered to be least developed (e.g., Bangladesh, and Sudan).

- The Food and Drug Administration: FDA provides some assistance to help foreign firms with quality control through seminars and laboratory training sessions. This type of assistance is offered through periodic workshops to which foreign officials/technicians are invited; for example, a shrimp workshop was held in April 1980 in Los Angeles. FDA also conducts an annual conference to which representatives from all foreign embassies are invited. The 1980 conference dealt with labeling requirements. At the request of foreign governments, FDA also provides training from one day to several months for foreign personnel but only when resources are available. FDA regulations are published in the Federal Register and FDA actions are communicated to the U.S. State Department and often to affected foreign embassies. FDA officials cautioned, however, that their mandate is to protect the American public and not to provide assistance to foreign producers/exporters.
- Trade and Development Program: <sup>1/</sup> TDP promotes U.S. private participation in Third World development through project planning services and government-sponsored assistance on a reimbursable basis. TDP is directed principally at middle-income developing countries that can finance their own development; therefore, it complements U.S. bilateral development assistance. Two kinds of services are available: (1) technology, technical services and training from U.S. Government agencies on a reimbursable basis and (2) planning assistance, including project preparation and feasibility studies by U.S. agencies and private firms on a grant basis. While TDP promotes sales of U.S. technological goods and services, TDP also assists in the economic development of Third World countries by financing project planning, including feasibility studies, technology workshops and technology orientation missions. This program could also lead to increased developing country exports.
- The Overseas Private Investment Corporation: <sup>1/</sup> OPIC is a government-owned corporation with the Director of IDCA serving as the Chairman of the Board. OPIC provides political risk insurance to U.S. investors in new or expanding businesses in developing countries, providing mutual benefits of expanded employment, demand for goods and services, and improved balance of payments. Complementing this insurance program is OPIC's project financing service. Financing on commercial terms is provided to privately-owned and operated businesses in developing countries to acquire U.S.-experienced management and competent technology. While OPIC assists U.S. investment

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<sup>1/</sup>See footnote, p. 68.

in developing countries, OPIC also assists these countries with their economic development by providing U.S. technology, and investments leading to increased exports.

On a multilateral basis, the United States supports numerous activities that assist developing countries' trade. For example, the World Bank and International Monetary Fund are taking new measures to assist developing countries' trade and economies. The United States supports these efforts since it provides a major share of U.S. development assistance through U.S. support for international institutions. The United States also supports certain international agreements to stabilize commodity trade including the common fund and International Agreements on Rubber and Sugar. In addition, the United States supports the Multilateral Trade Negotiations which provides tariff reductions and other preferential treatment for developing countries' trade.

Our interviews with American officials, as well as an AID evaluation of trade assistance provided through the World Trade Institute, reveal differing views on the need for and value of providing U.S. trade assistance. Some see the need for and value of such assistance while others consider that such assistance is a low priority development mechanism and/or is incompatible with basic human needs objectives and/or domestic interests. An AID evaluation of trade assistance activities provided by the World Trade Institute found that such activities are fully consistent with AID policies and meet many developing country needs in non-traditional export development and trade promotion. A State Department official noted that the United States has occasionally thought about replicating the British, Dutch, and Scandinavian trade promotion programs for developing countries; however, the benefits of such assistance are questioned and the political and domestic sensitivity weighs heavily against the adoption of such assistance mechanisms.

An AID evaluation also found that trade and technical assistance is directly related to new or increased employment, which usually is labor-intensive, and to increased foreign exchange, both of which are necessary for long-term sustained satisfaction of basic human needs. In our case studies of four developing countries, we found that these countries have, to varying degrees, adopted trade strategies which emphasize exports, but each country requires some trade technical assistance to fully take advantage of the opportunities existing in the international trade market.

We found that developing countries are using the trade assistance provided, deem such assistance beneficial and see a need for continued assistance in this area.

THE NETHERLANDS CENTER FOR THE PROMOTION  
OF IMPORTS FROM DEVELOPING COUNTRIES

The Netherlands Center for the Promotion of Imports from Developing Countries, located in Rotterdam, is an agency of the



Netherlands Ministry of Foreign Affairs under the responsibility of the Minister for Development Cooperation. The Center's aim is to contribute to the prosperity of the developing countries by providing information about marketing opportunities for their products in the European Common Market, especially the Netherlands. Although the Center is a government organization, it is not responsible for trade policy; has no influence over government trade rules and regulations; and does not trade itself, being neither an import house nor an agent. But rather, the Center assists developing countries in using existing market conditions as discussed below. The Center operates with 16 staff on a budget of about \$4.8 million, which includes about \$1.3 million for International Trade Center projects.

Since 1971, the Center has assisted individual exporters from developing countries around the world. It provides assistance because many exporters from developing countries lack the knowledge and information about the European Common Market. European businessmen also benefit by getting further knowledge on the industrial and other supply capacities of developing countries as well as by providing them goods and services. The Center's assistance is free of charge but its services are exclusively available to those exporters who have no regular business contacts with the Netherlands. In 1980, the Center received about 15,000 requests for assistance from developing country exporters, one-third of whom were new first-time requestors.

The Center provides trade information and acts as an intermediary, promoter and liaison with other organizations assisting developing countries, for example the International Trade Center. The Netherlands Center's activities in these functional areas are outlined below.

#### Information

The Center provides market surveys--facts and figures about the potential market for developing countries' products. Also it provides details in such areas as import and excise duties, taxes, the Food and Drugs Act, distribution channels, transport, storage, insurance, and packing. It also provides information on health and safety standards' requirements for specific products. Other information provided could include tariffs, quotas, customs formalities, currency exchange regulations, etc. In addition, the Center holds marketing seminars twice a year for exporters from developing countries. These seminars cover what is required by both trade and consumer including packaging, pricing, product adaptation and other important aspects.

For example, "The Leather Case" was a traveling seminar from October 19 to November 11, 1980, for businessmen from developing countries responsible for the export of leather and leather goods. Out of over 150 applications from 36 developing countries, 60 participants were selected from 27 countries. Participants traveled to the United Kingdom, France, Belgium, the Netherlands, and Germany to meet importers, agents and distributors interested

in four main product groups: leather, leather goods, leather clothing and leather coverings. In addition, participants met with suppliers to the leather and leather goods industry to discuss their interests in machines, equipment, tools, implements, parts, adhesives, chemicals, etc., required in their plants.

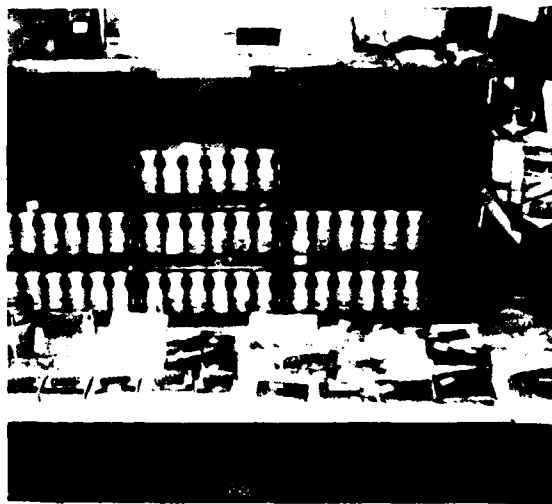
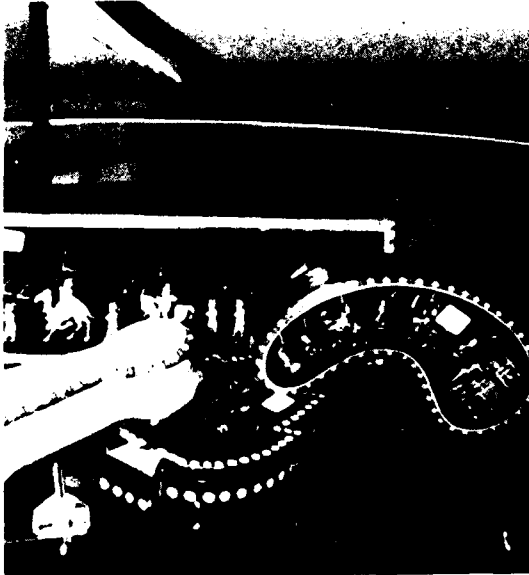
#### Intermediary

The Center acts as an intermediary, establishing contacts between exporters and importers and/or providing lists of potential buyers. It has some 800 importer company profiles for reference. As part of these efforts, the Center issues a monthly "News Bulletin," announcing supply/demand market opportunities; seminars, trade fairs/exhibitions, etc. The Bulletin is sent to about 3,700 importers and importer federations, chambers of commerce, department stores, and developing country governments, embassies and exporters.

In addition, the Netherlands Center has a showroom located within its building where importers mainly from the Netherlands, Belgium and Germany, can inspect samples of developing countries' products. (See pp. 74-75.) To link importers and developing countries' firms/exporters together, the Center asks developing countries' firms/exporters to fill out a company profile. The importers can then give their opinion on the samples and market possibilities, and the Netherlands Center sends the firms/exporters a report of these findings, including suggestions for product adaptation and/or diversification.

During September/October, 1980, products on exhibit at the showroom included the following. (See p. 76.)

PICTURES OF DEVELOPING COUNTRY PRODUCTS  
EXHIBITED AT THE NETHERLANDS CENTER FOR THE PROMOTION OF  
IMPORTS FROM DEVELOPING COUNTRIES





## APPENDIX II

## APPENDIX II

| <u>Product groups</u>   | <u>Exporters/manufacturers/agents<br/>(by country)</u> |
|---|--|
| vegetable products  | Sri Lanka, Cyprus, Botswana                            |
| prepared foodstuffs; beverages,<br>spirits and vinegar; tobacco   | Peru, Turkey, Cyprus, India                            |
| products of the chemical and<br>allied industries   | India, Cyprus, Singapore                               |
| raw hides and skins, leather,<br>furskins and articles thereof;<br>saddlery and harness; travel<br>goods, handbags and similar<br>containers; articles of gut<br>(other than silk-worm) | India, Pakistan  |
| textiles and textile articles<br>(includes floor and wall<br>coverings, T-shirts, table-<br>cloths, bedspreads, bed sheets<br>and pillow covers)  | India, Pakistan, Philippines,<br>Brazil                |
| artificial flowers  | Thailand   |
| products to be used at high<br>temperatures and for high<br>voltage equipment   | India  |
| cut and polished gemstones and<br>soap stone bracelets  | Sri Lanka, Thailand                                    |
| base metals and articles thereof  | India, Thailand  |
| welding machines  | Turkey   |
| wooden furniture, educational toys  | Malta, Philippines                                     |
| gift articles: glass tea-sets,<br>wood carvings, macrame hangers,<br>brass statues  | Thailand, Kenya, India,<br>Indonesia                   |

Promoter

The Netherlands Center also provides financial and marketing technical assistance for developing-country exporters joining Dutch trade fairs, as well as informing them on future fairs, conditions and facilities.

The Center will give exporters who attend selected fairs a package that includes: one-half of a round-trip airfare; a per diem of \$60 which begins one day before and ends a few days after the fair; and the costs of product transport and exhibit space. For example, 24 suppliers of tropical hardwoods from

Africa, Asia and South America participated in the fair "WOOD '80," held in Rotterdam, October 21-25, 1980. The exporters participated with marketing and financial assistance from the Center and had the opportunity to contact importers, agents and the end-users of hard timbers and to study their export possibilities. Four fairs are planned for 1981.

The Netherlands Center also assists developing countries establish their own export promotion offices in the Netherlands. For the first 2 years, the Center assists by providing office space, staff support, supplies, contacts, etc. For these purposes, the Center provides up to \$50,000 per year per office. The developing country supplies the staff and living expenses. After 2 years, the developing country must decide to operate the trade office itself or close it down. Assisted by the Netherlands Center, Bangladesh, Egypt, and the Dominican Republic either have or will have export promotion offices in the Netherlands. The Mexico trade office, initially supported by the Netherlands Center, now supports itself.

#### Liaison

On behalf of the Netherlands Government, the Center acts as a liaison for developing countries, the EEC and others involved in export promotion, like the International Trade Center. (See p. 53.) For example, in liaison with the International Trade Center, the Netherlands Center provides programs for participants in International Trade Center courses, seminars, etc., when these participants visit the Netherlands. The Netherlands Center also assists developing country trade missions in meeting importers.

#### UNITED KINGDOM TRADE AGENCY FOR DEVELOPING COUNTRIES

The United Kingdom Trade Agency for Developing Countries, established in 1973 by the British Government's Ministry for Overseas Development, provides advice and assistance to developing countries on how to increase exports. Effective exporting depends on knowledge of markets, consumer tastes, correct packaging, and expertise in the relevant trading regulations; the U.K. Agency provides advice in these areas.

The Agency operates with 11 staff and a 1981-82 budget of about \$480,000 and the budget and staff are strengthened by being located within the London Chamber of Commerce and Industry. The U.K. Agency uses the Chamber's library facilities, research staff, typing pool and the Chamber provides accounting services. In addition, other financial support is provided (i.e., for trade fairs) by the EEC, the U.K. Commonwealth Secretariat and the U.K. Government.

The Agency does not charge fees for its services; on the other hand, it generally does not assist oil-rich countries or others who already have adequate resources to help themselves. The Agency assists developing country exporters, trade promotion

officials and their commercial attaches, and trade representatives in the United Kingdom. Although assistance covers a wide range of developing countries' products, the U.K. Agency avoids promoting "sensitive" products, i.e., leather shoes, but concentrates on "non-sensitive" products, i.e., leather suitcases.

The Agency's activities in the areas of information, liaison, training, trade missions and trade fairs are highlighted below.

#### Information

The U.K. Agency acts as a central information reference point for developing countries' marketing and sales promotion in the United Kingdom. It provides information on market opportunities in the U.K., trading procedures affecting imports, methods of marketing and adapting product quality and presentation to the U.K. market and establishes contacts with U.K. importers. The Agency is mutually benefitting--promoting two-way trade and joint ventures--for the United Kingdom and developing countries. The Agency frequently puts importers and manufacturers in developing countries in touch with British companies who can provide goods and services to increase exports. It also brings to the attention of British manufacturers new sources of raw materials and partially manufactured goods, together with favorable investment opportunities. Often, developing country manufacturers ask the U.K. Agency to find investors from Britain to enter into joint ventures in which the United Kingdom provides the capital and technical expertise in conjunction with local companies.

#### Liaison and training

In providing trade assistance to developing countries, the U.K. Agency coordinates and works with the EEC and the Commonwealth Secretariat; the International Trade Center; the British Importers Confederation; and the Tropical Products Institute of the Overseas Development Ministry. The Institute's work is closely involved in the development of export-oriented production in developing countries. In addition, the U.K. Agency coordinates and works with its "sister offices" in the Netherlands, Germany, Denmark, Norway, and Sweden.

The Agency also acts as liaison with other agencies in providing training. For example, the U.K. Agency, the German Foundation for International Development, the Trinidad Institute of International Relations, the EEC, and the British Council organized a 5-year program to train commercial diplomats and trade attaches from Asia, Africa, and Latin America on export promotion, international investment and development policy. Several Caribbean countries participated in the first seminar held from October 20 to November 29, 1980, in Spain, Germany, Belgium, and the United Kingdom. Each EEC membercountry involved contributes to the costs in its own country and the European Commission pays for international travel. Several training sessions were held in the Agency's offices.

Similarly, the Agency also is involved each year in an 8-week course for developing-country businessmen and government trade officials financed by the U.K. Overseas Development Ministry. The course essentially explains the requirements for developing countries to sell their products in the United Kingdom. The organizing institution is the University of Manchester in collaboration with the International Trade Center and the U.K. Agency. Both provide lecturers for the course and training sessions include the role of the International Trade Center and the British Government in trade promotion, including the activities of U.K. Agency.

#### Trade missions and trade fairs

The U.K. Agency acts as the organizing body in the United Kingdom to receive trade missions from developing countries who are visiting Europe under the sponsorship of the EEC. The EEC pays for these missions from developing countries and the Agency sets up appointments for developing country participants. In 1980, about 30 missions will have been assisted by the Agency. Missions have come from Afghanistan, Bangladesh, Egypt, India, Indonesia, Thailand, Malaysia, Sri Lanka, Pakistan, Philippines, and others.

The U.K. Agency has also been involved in organizing and assisting developing countries in trade fairs held in London--one in 1976 and one in 1979. The 1976 fair cost about \$408,000 and the 1979 fair, about \$840,000. The EEC financed about 50 percent of the costs, the Commonwealth Secretariat 30 percent, and the Overseas Development Ministry, 20 percent. Over 40 nations from Asia, the Far and Middle East, Africa, and South and Central America exhibited their goods in the first fair; over 50 countries exhibited in the second fair. The first fair produced an estimated \$60 million in trade for developing countries and the second \$168 million. Although the two fairs were considered successes, the U.K. Agency will not organize more fairs because it is believed that developing-country exhibitors will be exposed to greater trade opportunities in international fairs that include developed country exhibitors as well.

#### SWEDEN'S IMPORT PROMOTION OFFICE FOR PRODUCTS FROM DEVELOPING COUNTRIES

Sweden's Import Promotion Office, established in response to requests from developing countries at UNCTAD III in 1972, that industrialized countries organize national agencies to actively promote imports from developing countries, opened for a 3-year trial period in 1975 and was made permanent in 1979. The Office is financed through the Swedish International Development Authority and its 1980-81 budget is \$0.9 million.

Although exporters from developing countries had previously been able to collect information about the Swedish market from commercial organizations, chambers of commerce, etc., the Office started in many respects a new line of activities. This was



recognized by the Swedish authorities who gave to the office an unbureaucratic approach to matters and a director with commercial experience in consumer marketing. The staff--at present nine persons in all--also has similar qualifications. The intention was that the Office should be able to give active marketing assistance to exporters from developing countries, and not only act as a mere information body.

In assisting developing countries, Sweden's Import Promotion Office provides market information, advises on trade regulations, establishes contacts with importers, produces an exporters guide to Sweden on what the consumers want, and invites developing country trade missions to Sweden to show them what products will sell and why. In 1979, the Office received over 1,200 inquiries from developing countries--about 40 percent came from India; other questions came from Kenya, Brazil, Pakistan, and other developing countries. An official pointed out, however, that "correspondence help" is not as important as getting exporters physically into the market, i.e., trade missions.

#### OTHER DEVELOPED-COUNTRY TRADE PROMOTION OFFICES

Besides the trade promotion offices/centers of the Netherlands, United Kingdom, and Sweden, other developed countries provide varying degrees of trade assistance to developing countries through trade promotion offices or centers. For example, France's Center for External Trade has only two staff, but it assists annually in arranging business meetings for 60 to 70 developing country trade missions sponsored by the EEC, the International Trade Center or private business.

Similarly, Norway, Denmark, Germany, and Canada have offices to facilitate developing-country imports. Japan also has an import promotion center for Association of South East Asian Nations (ASEAN) countries. In addition, Japan spent \$300,000 in 1979 on missions to developing countries to promote developing country exports to Japan. Table 1 below shows trade promotion activities offered by select OECD countries.

TABLE 1  
SELECT OECD-COUNTRY TRADE PROMOTION ACTIVITIES

| SERVICES OFFERED TO DEVELOPING COUNTRIES:  | AUSTRALIA | AUSTRIA a/ | BELGIUM | DENMARK | FINLAND | FRANCE | GERMANY | JAPAN b/ | NEW ZEALAND c/ | NORWAY d/ | SWITZERLAND e/ |
|--|-----------|------------|---------|---------|---------|--------|---------|----------|----------------|-----------|----------------|
| 1. Statistical information on the market   | X         | X          | X       | X       | X       | X      | X       | X        | X              | X         | X              |
| 2. Information on sales opportunities in the market  | X         | X          |         | X       |         |        | X       | X        | X              | X         |                |
| 3. Information on import requirements and procedures   | X         | X          | X       | X       | X       | X      | X       | X        | X              | X         | X              |
| 4. Information on marketing techniques and business practices                                | X         | X          |         | X       | X       | X      | X       | X        | X              | X         |                |
| 5. Lists of importers, wholesalers, agents, distributors, etc., who deal in the product line | X         | X          | X       | X       | X       | X      | X       | X        | X              | X         | X              |
| 6. Names of buyers seeking supplies of a specific product in specified quantities            |           | X          |         |         |         |        | X       | X        |                | X         |                |
| 7. Arrangements for contacts when visiting the market  | X         | X          |         | X       | X       | X      | X       | X        | X              | X         |                |
| 8. Trade fair and exhibition assistance  | X         | X          |         |         |         |        | X       | X        |                | X         | X              |
| 9. Training programs   | X         | X          |         | X       |         |        | X       | X        |                | X         |                |
| 10. Publications concerning the market   | X         | X          |         | X       |         | X      | X       | X        | X              |           |                |
| 11. No charges for services  | X         | X          | X       | X       | X       | X      | X       | X        | X              |           |                |

a/Austria also offers free ads of product offers in a weekly trade information service and free circulation of product offers to Austrian importers.

b/For numbers 1, 2, and 3 above Japan's services are through various publications. Exporters also can use libraries in the Japan External Trade Organization. Japan also offers exchange visits for promoting exports, and production of films useful for exporters. Only Japan offers showrooms for product display.

c/New Zealand offers briefing papers and other assistance for trade missions.

d/Norway offers most services free.

e/Switzerland charges for services.

Source: As extracted from "Import Promotion Offices," a compilation by the International Trade Center, October 1978, at the request of developing country government officials.

EUROPEAN ECONOMIC COMMUNITY  
TRADE PROMOTION ASSISTANCE

An important part of the EEC aid program is assisting developing countries market their goods into Europe. The EEC Commission's trade promotion assistance includes supporting participants in trade fairs, seminars, missions and other promotional projects in community member states. The Community also has a special aid and trade arrangement, called Lome, with 60 African, Caribbean, and Pacific (ACP) developing countries. This arrangement contains special provisions for trade promotion assistance and is discussed in detail on p. 83.

The EEC also benefits through this assistance as pointed out by an exhibition catalogue for a 1979 London trade fair for developing countries:

"Trade promotion for developing countries in times of economic difficulties in Europe is frequently criticised. This criticism is seen as short-sighted since trade promotion covers not only straight selling but also joint ventures, sub-contracting and investment possibilities, leading to the establishment of long-term reciprocal trade, another important aspect of the business of the E.E.C."

According to the head of the Commission's trade promotion office in Brussels, the EEC assists not only Lome-ACP states but also "non-associated" states, i.e., those developing countries not ACP members. Financed from the Commission budget, about \$8 million will be devoted in 1981.

According to the Commission of the EEC, developing countries suffer from deficiencies in their marketing networks, lack of adequate information and contact between firms, and insufficient knowledge of consumers' requirements. The Commission believes that marketing and trade promotion assistance programs are therefore necessary to help overcome such barriers and are an essential complement to "market access" measures such as GSP.

Between 1974, when these programs were first introduced, and 1978, the Community has helped developing countries participate in some 448 trade fairs, has sent 126 trade experts to the developing countries and has organized visits to Europe for some 120 Third World exporters' missions. The Community budget for trade promotion activities in 1979 was about \$7 million and also about \$7 million in 1978.

Community activities were initially limited to the organization of training courses and seminars, but has been greatly diversified to include.

--organizing trade missions from the developing countries to the Community with the assistance

of specialized bodies in the member states--35 such trade missions were organized by the European Commission during 1977, 1978, and 1979;

- financing Third World participation in specialized trade fairs held in Europe, and sometimes outside Europe. Approximately 120 such fair participations are organized by the Commission each year;
- organizing "workshops" or marketing seminars for the developing countries to help Third World exporters learn about the export opportunities existing for different products on EEC markets. These seminars are partially financed by the Commission and the host developing country;
- helping developing countries in the publication of marketing brochures and guides about Third World exports, etc.; and
- helping developing countries establish their own trade promotion centers in EEC member states. The Commission has set up such centers for India in Brussels, and for Bangladesh, India, the Philippines, and Sri Lanka in Copenhagen.

Similar trade centers have been requested by Latin American countries. Although initially financed to a large extent by the European Community, these trade centers are expected to become solely supported by the developing countries themselves. They are an example of "triangular cooperation" existing between the community, member states, and the developing country which puts in the request.

#### THE EUROPEAN ECONOMIC COMMUNITY LOME CONVENTION

Probably the largest and most comprehensive of all agreements linking industrialized and developing countries is the Lome Convention, which links the 10 member states of EEC with 60 ACP states. (See p. 84.) The Lome Convention, an integrated trade and aid approach between the ACP states and the EEC, is a contractual agreement between these two regional groupings incorporating aid and loans into a \$6.9 billion, 5-year package. Lome I operated from 1975 to 1980. Lome II began on March 1, 1980, and will have operated for 5 years by February 28, 1985. Both the ACP countries and EEC countries receive benefits from the Convention. The ACP states receive guaranteed 5-year aid and loan assistance including some export income protection, and participation in planning their development policies and programs. EEC members obtain secure sources of raw materials, markets for industrial goods and intangible political

## THE EUROPEAN COMMUNITY

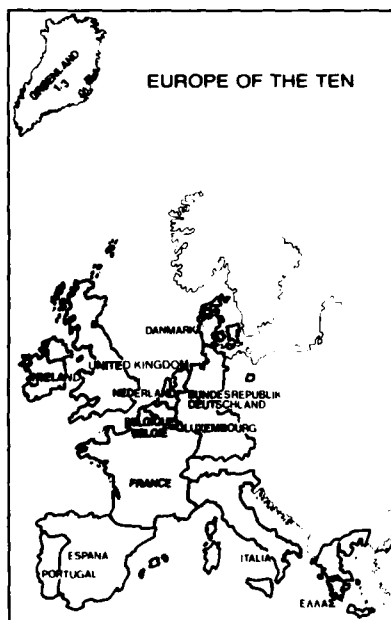
**BELGIUM  
DENMARK  
FRANCE  
GERMANY  
(Federal Rep.)  
GREECE  
IRELAND  
ITALY  
LUXEMBOURG  
NETHERLANDS  
UNITED KINGDOM**

## THE ACP STATES

**BAHAMAS  
BARBADOS  
BENIN  
BOTSWANA  
BURUNDI  
CAMEROON  
CAPE VERDE  
CENTRAL AFRICAN  
REPUBLIC  
CHAD  
COMOROS  
CONGO  
DJIBOUTI  
DOMINICA  
EQUATORIAL GUINEA  
ETHIOPIA  
FIJI  
GABON  
GAMBIA  
GHANA  
GRENADA  
GUINEA**

**GUINEA BISSAU  
GUYANA  
IVORY COAST  
JAMAICA  
KENYA  
KIRIBATI  
LESOTHO  
LIBERIA  
MADAGASCAR  
MALAWI  
MALI  
MAURITANIA  
MAURITIUS  
NIGER  
NIGERIA  
PAPUA NEW GUINEA  
RWANDA  
ST. LUCIA  
ST. VINCENT and GRENADINES  
SAO TOME PRINCE  
SENEGAL  
SEYCHELLES**

**SIERRA LEONE  
SOLOMON ISLANDS  
SOMALIA  
SUDAN  
SURINAME  
SWAZILAND  
TANZANIA  
TOGO  
TONGA  
TRINIDAD and TOBAGO  
TUVALU  
UGANDA  
UPPER VOLTA  
WESTERN SAMOA  
ZAIRE  
ZAMBIA  
ZIMBABWE**



### FRANCE

(Overseas departments)

Guadeloupe

Guiana

Martinique

Reunion

St Pierre and Miquelon

(Overseas territories)

Mayotte

New Caledonia and Dependencies

French Polynesia

French Southern and Antarctic Territories

Wallis and Futuna Islands

### NETHERLANDS

(Overseas countries)

Netherlands Antilles

(Aruba, Bonaire, Curacao, St Martin, Saba, St Eustatius)

### UNITED KINGDOM

(Overseas countries and territories)

Anguilla

Belize

British Antarctic Territory

British Indian Ocean Territory

British Virgin Islands

Brunei

Cayman Islands

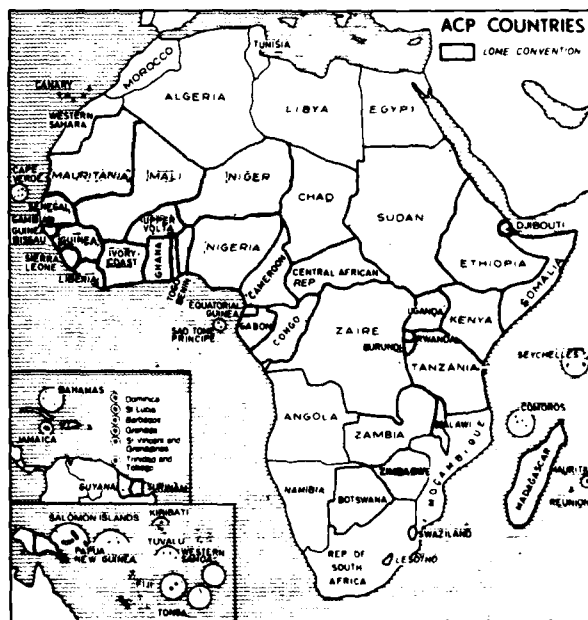
Falkland Islands

Montserrat

Pitcairn Island

St Helena and Dependencies

Tokelau, New Zealand Anguilla



This list does not prejudice the status of these countries and territories now or in the future

benefits. In view of their previous political and historical links, the EEC-ACP Lome Convention may be seen as a legal formalization of past and evolving economic interests on both sides.

#### LOME CONVENTION BACKGROUND

Before Lome, the EEC members had specific historical relations with overseas countries that had become independent. The first Lome Convention sought to establish, through a conventional legal instrument, continued relations with previous dependent ACP countries. Certain countries which had never previously had special relations with member states of the Community also signed this Convention, i.e., Ethiopia, Liberia, Guinea-Bissau, Cape Verde, Sao Tome and Principe and Equatorial Guinea. The Lome Convention is the EEC's trade and aid mechanism for the 60 ACP states. It is a convention that is contract in nature, binding the EEC to its commitments with specific institutions and instruments for implementing the convention while it is in force for the next 5 years--1980-85.

Two major institutions involved in Lome are the European Development Fund and the European Investment Bank. The Fund is to provide over \$6 billion in aid and loans over the next 5 years to the ACP while the Bank is to allocate almost a billion dollars through subsidized loans through Lome. About \$4 billion of the funds are grants given to ACP states' individual programs. These funds are spent by the ACP states through Lome according to their needs. The rest of the funds go into the other mechanisms of Lome. Thus far, the first Lome Convention, 1975-80, has expired and another convention referred to as Lome II was signed in Togo's capital, Lome, as was the first convention. Lome II began in March 1980.

Select major aspects of Lome II are highlighted below. They are: the system for stabilization of export earnings; the system for mineral development; duty free entry; trade promotion; and industrial cooperation. Additionally, the EEC's regional arrangements with other-than-ACP countries are highlighted.

#### STABILIZATION OF EXPORT EARNINGS (STABEX)

Stabex is the Lome Convention provision for stabilizing export earnings on 43 agricultural commodities, plus iron ore, of ACP countries. Stabex is an aid-trade hybrid which provides partial compensation, when prices of these exports fall, through automatic transfers of funds to the ACP exporter state.

Stabex transfers are automatic, provided the requirements have been met. Disbursement of Stabex funds is governed by a complex set of requirements. The terms of which transfers are made vary; a "least developed" ACP state receives a Stabex grant while other ACP countries receive interest free loans. For 1980-85, \$731 million is allotted for Stabex transfers.

Stabex can supplement international commodity agreements and the International Monetary Fund (IMF's) Compensatory Financing Facility. For example, the EEC relies on the International Cocoa agreement to avoid excessive heavy cocoa transfers under Stabex. Also, ACP countries can draw on the IMF's Facility; for example, between 1975 and 1976, 11 ACP states drew funds from both Lome's Stabex and the IMF's Facility for ACP shortfalls in export earnings. Stabex transfers are much preferred by the ACP to the IMF's Facility because they are effectively free foreign exchange and the EEC does not require economic policy adjustments.

Stabex is popular among the ACP countries. ACP secretariat officials and EEC officials commented that, in general, ACP states are content with Stabex. Officials at the OECD, International Chamber of Commerce, and with the embassies and missions of member countries of the EEC noted that Stabex has a net positive effect in helping ACP export earnings of Stabex-covered commodities; however, ACP officials would like an enlargement of Stabex product coverage.

At the end of 1979, 37 ACP states had received about \$499 million in transfers. Drops in export earnings were mostly because of production shortfalls due to natural disasters and production stagnation; thus, Stabex can be seen more as a short-term disaster relief mechanism rather than an income support mechanism. An EEC Stabex expert noted that Stabex acts as a commodity insurance scheme and as a bridge between supplying emergency aid and development aid; for example the Caribbean ACP states received about \$8 million to cover crop damages caused by Hurricane Allen. Officials at the ACP secretariat also stated that Stabex is an insurance mechanism for ACP commodity exports.

Some ACP officials have complained that Stabex indirectly discourages industrialization since product coverage applies only to agricultural raw commodity exports; however, EEC officials noted that Lome II added some limited product processing. It should be noted that since Stabex product coverage is limited, some countries may suffer severe earnings shortfalls in products not covered by Stabex and therefore be ineligible for any Stabex transfer. Partly as a result of the limited product coverage Stabex payments have been concentrated on a small group of countries; i.e., Gabon and Ivory Coast (timber), Ethiopia (coffee), Benin (cotton), Tanzania (sisal), Niger and Senegal (ground nuts), Mauritania (iron ore).

#### SYSTEM FOR MINERAL DEVELOPMENT (SYSMIN)

Sysmin, an important new feature to the Lome, is to insure continued minerals' supplies from the ACP to the EEC when man-made or natural disasters and/or price collapses cause adverse effects to ACP volume of production.

Unlike Stabex which provides financial transfers for loss of earnings, Sysmin provides soft loans to be used for EEC approved projects in the affected mineral sector. Sysmin has about \$372 million available for investment projects supported by 40-year loans with 10-year grace periods, at 1 percent interest (0.75 percent interest for least developed). Additionally, about \$266 million is available for loans to ACP projects from European Investment Bank funds. Thresholds which must be met before assistance is provided are: (1) at least 15 percent of ACP export earnings must be from Sysmin-covered minerals and (2) the ACP must suffer a 10 percent drop in the volume of exports to EEC.

Unlike Stabex, Sysmin assistance is not for stabilizing prices but for maintaining ACP's volume of production. Sysmin will cover the main mineral exports of the ACP states to EEC. The main ACP minerals and exporters include copper from Zambia, Zaire and Papua New Guinea; bauxite from Guinea, phosphates from Togo and Senegal; alumina from Jamaica, Suriname and Guyana; manganese from Gabon and tin from Rwanda. Iron ore from Liberia and Mauritania, which is currently under the Stabex provisions, will be phased into the Sysmin provisions by 1985. EEC is heavily dependent on developing countries for mining products and Sysmin intends to provide a means of assuring sources of raw mineral supplies.

Accordingly, Sysmin is to provide project and program financial and technical assistance to safeguard and develop mineral production in ACP countries for exports to the EEC. According to an EEC document, mining investment in Africa has dropped to a point where there has been practically no investments by European firms in mineral exploration since 1974. To overcome this problem, the Sysmin provision is aimed at stepping up external flows of technology and capital. Another EEC concern expressed is not just that mineral supplies may dwindle, but that the source of mineral supply will tend to shift away from Africa towards countries where other industrialized mineral users represent more powerful competition. <sup>1/</sup>

Since Sysmin is a new Lome provision, there is no experience level on which to judge the beneficial impact it has for the EEC or ACP. However, Sysmin does show how much importance the member states of the European community attach to assured mineral supplies and to slow down the decline in mining investment, particularly in Africa.

#### DUTY-FREE ENTRY

According to the Lome Convention, 99.5 percent of ACP exports are to enter the community duty-free; however, the effects

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<sup>1/</sup>The EEC and the Third World: A Survey, edited by Christopher Stevens; "The Second Lome Convention," by Adrian Hewitt and Christopher Stevens, Overseas Development Institute, London, U.K. 1981, p. 54.



of this are limited. For example, the EEC's Common Agricultural Policy contains varying levies on ACP exports which generally do not give ACP agricultural exports an edge over domestic European producers. Moreover, most non-agricultural ACP exports to the EEC are needed primary products and could enter duty-free without Lome; this includes commodities like crude petroleum, iron, copper, other ores, phosphates, cotton, raw sisal, wood logs, bulk tea, and oil seeds. The ACP's capacity to export industrial products is very limited; therefore, manufactures do not figure prominently in ACP exports to the EEC despite the tariff concessions. This is not surprising since about two-thirds of the ACP are defined as least-developed, landlocked, or island countries.

Although some data is now available for trade flows under Lome I, it is still premature to begin making definitive judgments. Trade flows for the years 1972-77 indicate that the EEC's imports from the ACP have risen faster than average, but there is no significant difference between the pre- and post-Lome periods for the ACP's performance relative to total imports or to imports from all developing countries.

The Lome duty-free provisions are more spectacular in gesture than effective in reality. For example, 5 ACP countries account for over 60 percent of EEC imports from ACP states and 32 ACP countries provide less than 1 percent of total ACP exports to EEC. Nigeria itself provided on the average 29 percent of the ACP exports to EEC, the majority of which was oil. However, compared with other EEC contractual trade relationships, ACP states generally receive more favorable treatment than other countries.

#### TRADE PROMOTION

According to an EEC Commission report, measures are needed to promote the marketing and sale of ACP products they export. In response to this need Lome I incorporated trade promotion/technical assistance measures. Lome I financed measures to promote trade in two ways. One was an appropriation of about \$20 million for trade promotion. The other was individual appropriations from funding provided to the ACP states through Lome.

The 1980 ACP-EEC Council of Ministers report on Lome I listed a total of \$44.7 million spent on trade promotion activities: about \$18.7 million on trade fairs and exhibitions; about \$4 million for specific regional projects and about \$22 million from the ACP funds.

While questions were raised regarding the effectiveness of Lome I's trade promotion measures, Lome II reaffirmed EEC-ACP commitment to trade promotion. Trade promotion measures are to be expanded in Lome II to encompass the production stage to the final stage of distribution. The measures are to include

- establishing/improving trade development organizations;
- trade promotion training;

- product research;
- transport, storage facilities, etc., development;
- advertising;
- establishing/promoting/improving cooperation among ACP, EEC, and third country economic operators;
- conducting/using market research/studies;
- collecting, analyzing, disseminating and facilitating trade information, including systems in the EEC-ACP;
- participation by ACP in fairs, exhibitions, and specialized international shows;
- special assistance to small- and medium-sized undertakings for product identification and development, market outlets and joint marketing ventures; and
- least developed ACP states' participation in the various trade promotion activities shall be encouraged by special provisions; i.e., the payment of personnel travel expenses and goods' transport for fairs and exhibitions.

Lome II also expanded funding for trade promotion. A fund of \$53.2 million is established for trade promotion/technical assistance over the next 5 years under regional programs of the current convention. Additional funds for trade promotion can be allotted by individual ACP states.

#### INDUSTRIAL COOPERATION BETWEEN ACP AND EEC

The Lome I Convention set out some extremely ambitious objectives for industrial cooperation which encompassed (1) promoting the development and diversification of industry in the ACP states; (2) promoting the marketing of industrial products of ACP states in foreign markets; (3) encouraging the development of ACP small- and medium-sized industrial firms; and (4) encouraging EEC firms to participate in the industrial development of the ACP states, among others.

Both the ACP and EEC agree that industrial cooperation has fallen short of expectations and is not functioning properly because of many different causes including the insufficient emphasis on an industrial promotion policy in the ACP states; the difficulties encountered by the ACP states in drawing up operational industrial projects; and the lack of financial resources for putting into effect projects which have been or should have been worked out. Although about \$424 million was allocated to industrial development by the end of 1979, these finances and others have not fully satisfied the ACP needs or Lome Convention's industrial cooperation goals.

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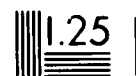
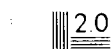
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NATIONAL BUREAU OF STANDARDS, U.S.A.

The industrial cooperation aspect of the Lome Convention relies on all aspects of the Convention for its implementation. Unlike Stabex, Sysmin or trade promotion, industrial cooperation does not have a specific fund allotment. Instead, it is to be implemented by using the whole range of instruments provided by the Convention, the intent being the development of a whole sector in the economy of an ACP country.

The Industrial Cooperation Committee of the EEC-ACP was established in Lome I to follow implementation of industrial cooperation, note problems arising, report them and be able to "impart a decisive drive" to the policy. In addition, the Committee is to supervise the Center for Industrial Development. The impact of the committee has been limited to date.

#### Center for Industrial Development

The Center for Industrial Development was also established under Lome I to provide industrial information, organize and facilitate contact making and perform other functions in industrial promotion. The Center was to be an operation instrument, managed jointly by the ACP countries and the EEC.

The effectiveness of the Center has yet to be measured because it is still developing its directions and defining its role and scope. According to the September 1980 EEC-ACP Joint Committee report, the Center branched out in too many directions to the detriment of efficiency and its role was limited in the first Lome. ACP criticisms were that the Center did not have the facilities needed to promote investments nor the means to ensure acquisition of industrial techniques and transfer of technology.

Although the Center's budget has been substantially increased from about \$8.25 million in Lome I to about \$33 million under Lome II, it is questionable whether this will be sufficient to answer ACP criticisms. The Center appears to be functioning as a "marriage broker" between EEC firms and ACP firms conducting research, market studies and establishing contacts. A Center official told us that about one-half of its resources go to studies while the other half is for administration. Lome II directs the Center to place special emphasis on identifying possible EEC-ACP joint ventures, particularly small- to medium-sized firms in the ACP and to place special attention to the problems of the least developed, landlocked, and island ACP states.

#### HIGHLIGHTS OF EEC TRADE ARRANGEMENTS WITH OTHER DEVELOPING COUNTRIES

The EEC not only has its regional agreement with the 60 ACP Lome Convention countries but also is expanding its regional trade relationships to the Association of South East Asian Nations (ASEAN) and to 5 Latin American countries--the Andean Pact. In addition, the EEC has bilateral cooperation agreements with

seven Arab League countries and EEC overseas territories. According to U.S. officials, the United States generally considers regional trade agreements a distortion of free world trade and market forces.

ASEAN and the EEC signed an economic cooperation agreement in March 1980, formalizing for the first time the relationship between these two regional groupings. The agreement is to establish economic ties toward a more equitable footing, based on comparative advantage and mutual benefit. The agreement confers most-favored nation treatment to each other in their commercial relations. The pact is divided into three forms of cooperation--commercial, economic, development--with provisions for a Joint Cooperation Committee to implement the agreement. The agreement will be in force for a 5-year initial period, after that for 2-year periods.

EEC was negotiating a similar agreement with the Andean Pact countries (Peru, Ecuador, Bolivia, Colombia and Venezuela). The Andean Pact countries are important suppliers of raw materials such as tin, copper, zinc, lead, tungsten, coffee, and bananas. In return, they buy a wide variety of manufactured goods. After the United States, EEC is the largest consumer of Andean exports (23 percent) and supplier of its imports (14 percent). The Andean countries would like to increase EEC trade to reduce dependence on the United States. The Andean agreement was being negotiated during May of 1980. However, negotiations have been broken off and are dormant at this time. The agreement intended to promote a broad framework for cooperation, an important part of which would be the review, once or twice a year, of trade aid, investment and joint projects.

EEC has also signed bilateral cooperation agreements with seven Arab League countries: Algeria, Morocco and Tunisia, and Egypt, Syria, Jordan and Lebanon. Sudan, Somalia, and Mauritania, also Arab League countries, are in the EEC-ACP Lome Convention. The cooperation agreements between the EEC and seven Arab League countries mainly comprise trade concessions and financial and technical cooperation.

EEC also has a Lome-type arrangement for its members' overseas territories--those still dependent on France, the United Kingdom, and the Netherlands (see p. 84). The arrangement provides these colonies rights and benefits similar to those provided to ACP states under the second Lome Convention (e.g., the Sysmin, Stabex, preferential access to the community market, etc.). The timeframe of the arrangement parallels that of the Lome Convention to facilitate the overseas territories accession to the Lome Convention following independence.

#### SUCCESS OF LOME

The ACP countries are receiving more aid thanks to the Lome Convention than they would without it. Questions have been

raised as to which group, the ACP or EEC, benefits more from Lome. Sources in ACP generally noted that the EEC gained more benefits from Lome while sources in the EEC claim that the ACP benefit more. Given the mutual relationships involved in Lome there is a case for each perspective.

For the ACP member states, Lome provides specific terms of benefits from Lome funding and other provisions which allow for development planning within the ACP states with secure yearly levels of financing. Additionally, the 5-year, contract-type arrangement provides ACP a sense of participating in and planning for development policies and programs that affect them. Finally, Lome is the major source of multilateral aid to the ACP and the EEC members provide the largest amount of aid to the ACP states.

EEC also benefits from the Lome Convention through (1) secured sources of raw materials to EEC members, (2) markets for EEC industrial goods and (3) a positive influence of the EEC into Africa and other developing countries. Positive influence is an intangible benefit such as the meetings between officials and leaders of ACP and EEC. Such meetings provide lines of communication that can be utilized in other international fora.

In terms of trade flow, data available allows for no definitive conclusions or benefits. ACP states perform the traditional trade role of providing raw material exports and ACP percentage of EEC trade remained stable during Lome I. EEC exports to ACP have been growing faster since 1975 through 1977 though much of this growth can be attributed to increased EEC exports to ACP oil producers.

\*U.S. GOVERNMENT PRINTING OFFICE: 1981-O-341-843/740